The Federal Reserve Bank of Chicago reported that the Chicago Fed National Activity Index (CFNAI) declined slightly to –0.89 in February from a downward revised –0.87 in January. The January revision, from –0.55 reported last month, largely reflected revisions to data for industrial production, capacity utilization, new orders, and payroll employment. To date, the weakness in the CFNAI has been concentrated in data related to the manufacturing sector of the economy. The three-month moving average index, CFNAI-MA3, was –0.81 in February, down slightly from a revised –0.78 in January. February was the eighth consecutive month that the CFNAI-MA3 was below zero, an indication of below-trend growth in the national economy and a sign of easing pressures on future inflation. The CFNAI-MA3 has been at or below –0.70 since December. Since 1967, index values within the –0.70 and –1.00 range have indicated an increasing probability that the economy is in a recession. While the likelihood of recession appears to have increased slightly, the February CFNAI-MA3 reading of –0.81 remains well above the –1.50 level seen in all recessions since 1967.

Economic data released for February indicate continued weakness in the manufacturing sector but relative strength in most other sectors. In terms of the 85 individual indicators included in the CFNAI, 27 series are related directly to current manufacturing production. These 27 series receive 44 percent of the weights in the CFNAI and accounted for –0.63 of the February value of –0.89. An additional 14 data series include current manufacturing components, and with 14 percent of the weights in the CFNAI, accounted for an additional –0.04 of February’s value.
Overall, of the 85 individual indicators, 47 series showed improvement relative to January, although 55 series displayed below-average growth. As of March 30, February data for 64 of 85 indicators had been published; estimates for the remaining 21 series were used in constructing the February index.

The negative February reading should be interpreted as continuing evidence of national economic growth below trend. The February index does not currently point to an economy in recession. Over the sample period that the CFNAI is constructed (1967-2001), there were five economic recessions. In each of these recessions, the CFNAI-MA3 fell below –1.50. The February CFNAI-MA3 reading of –0.81 continues to be above those previous recessionary levels. Historical experience indicates an increasing probability of a recession as the CFNAI-MA3 falls deeper into and below the range of –0.70 and –1.00. The February index levels continue to indicate that the U.S. economy most likely is not currently in recession.

Revisions to the CFNAI can be attributed to two main factors: revisions to previously published data, and differences between estimates of previously unavailable data and subsequently published data.

Two-thirds of January’s downward revision was accounted for by revisions to previously published data, primarily to industrial production and employment data. The remaining one-third of the January revision resulted from differences between estimates made for 21 then unavailable data series and values that have since been published. December’s CFNAI was revised up from -0.79 to -0.68, primarily reflecting upward revision to December’s industrial production data.

**Interpreting the CFNAI–MA3**

- **If CFNAI-MA3 < -0.70 following a period of economic expansion…** Increasing likelihood that a recession has begun.
- **If CFNAI-MA3 > +0.20 following a period of economic contraction…** Significant likelihood that a recession has ended.
- **If CFNAI-MA3 > +0.70 more than two years into an economic expansion…** Increasing likelihood that a period of sustained accelerating inflation has begun.
- **If CFNAI-MA3 > +1.00 more than two years into an economic expansion…** Substantial likelihood that a period of sustained accelerating inflation has begun.

CFNAI historical data and background information are available on the Federal Reserve Bank of Chicago’s Website at http://www.chicagofed.org