

Chicago Fed National Activity Index

New Index Shows U.S. Economy Improved Slightly in January

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
March 5, 2001

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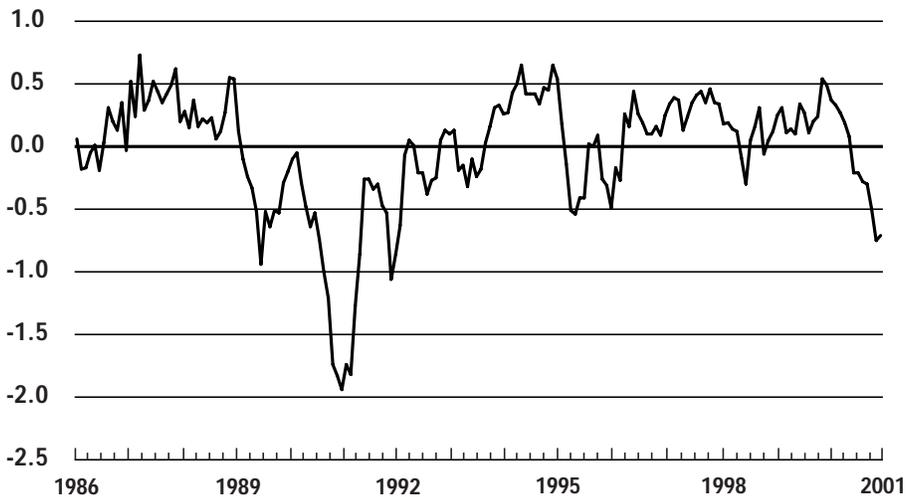
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, IL 60604

<i>Date of Release</i>	<i>Monthly Data for:</i>
March 5, 2001	January 2001
April 3, 2001	February 2001
May 2, 2001	March 2001
May 31, 2001	April 2001
July 5, 2001	May 2001
August 2, 2001	June 2001
September 4, 2001	July 2001
October 3, 2001	August 2001
November 5, 2001	September 2001
December 5, 2001	October 2001

The Federal Reserve Bank of Chicago, in its inaugural release of the Chicago Fed National Activity Index (CFNAI), reported that the index increased to -0.55 in January from a December level of -0.79. This monthly index, a weighted average of 85 indicators of national economic activity, is constructed to have an average value of zero and a standard deviation of one. A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values are associated with below-trend growth while positive values indicate above-trend growth. Thus, the -0.55 January value for the CFNAI indicates that the national economy was growing below trend that month, but not as far below trend as in December 2000 when the monthly index was -0.79.

Month-to-month movements in the CFNAI can be volatile, so a smoothed version of the CFNAI provides a more consistent picture of national economic growth. The three-month moving average index, CFNAI-MA3, was -0.71 in January, up slightly from -0.75 in December, and the seventh consecutive month it was below zero. A year ago, in January 2000, the CFNAI-MA3 was +0.49. Data for the CFNAI-MA3 suggest that national economic growth moved below trend in July 2000, when its value fell below zero to -0.21. Before then, the CFNAI-MA3 had been above zero for 19 consecutive months, a possible sign of aggregate demand growth above potential supply and building inflationary pressures. Historically, large positive readings of the CFNAI-MA3 have been associated with increasing future inflationary pressures. However, at a value of -0.71, the January CFNAI-MA3 is not signaling rising inflationary pressures.

Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI-MA3)



The next CFNAI will be released:
April 3, 2001
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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CFNAI and CFNAI-MA3 for the latest six months and year-ago month

	Jan '01	Dec '00	Nov '00	Oct '00	Sep '00	Aug '00	Jan '00
CFNAI	-0.55	-0.79	-0.80	-0.65	-0.06	-0.19	+0.45
CFNAI-MA3	-0.71	-0.75	-0.50	-0.30	-0.28	-0.21	+0.49

The 85 economic indicators that comprise the CFNAI are drawn from five broad categories of data: (1) production and income; (2) employment, unemployment, and hours; (3) personal consumption and housing; (4) manufacturing and trade sales; and (5) inventories and orders. As of March 1, January data for 64 of the 85 indicators had been published; estimates for the remaining 21 series were used in constructing the index for January. The 15 indicators with the largest contribution to the CFNAI come from the employment, industrial production, and national purchasing managers' reports.

The general tenor of economic data reports for January showed improvement relative to December. The seven indicators that receive the largest weights all showed improvement in January relative to December. Growth rates for total, private, and goods-producing payroll employment were above average. Industrial production growth and capacity utilization rates in manufacturing improved relative to November and December. However, the national purchasing managers' composite index and its production and new orders components fell further in January.

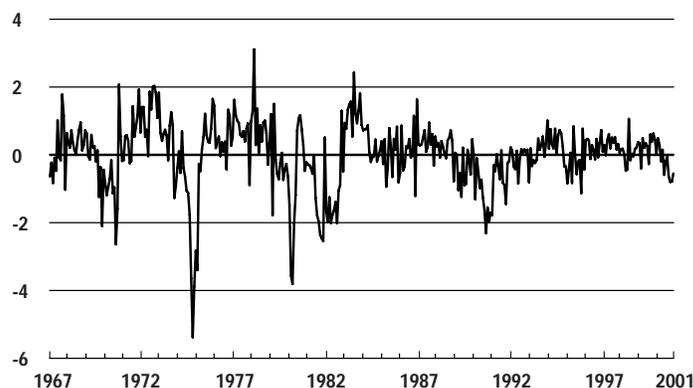
In terms of the 85 individual indicators, 52 indicators displayed below average growth in January. Relative to December, 44 of the 85 indicators showed improvement.

The negative January reading should be interpreted as continuing evidence of national economic growth below trend. The January 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 January CFNAI-MA3 reading of -0.71 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. Despite the fact that the three-month moving average index in January is on the cusp of this range, the monthly index reading of -0.55 indicates that economic activity in January seems to have improved relative to the three previous months. In those months, the monthly CFNAI index worsened from -0.65 in October to -0.79 in December.

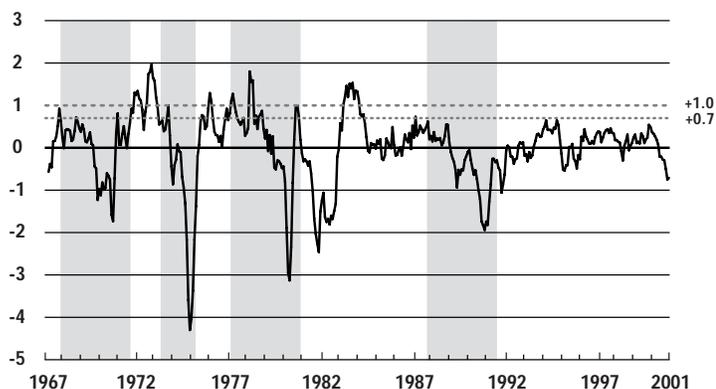
Interpreting the CFNAI-MA3

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, Monthly Index

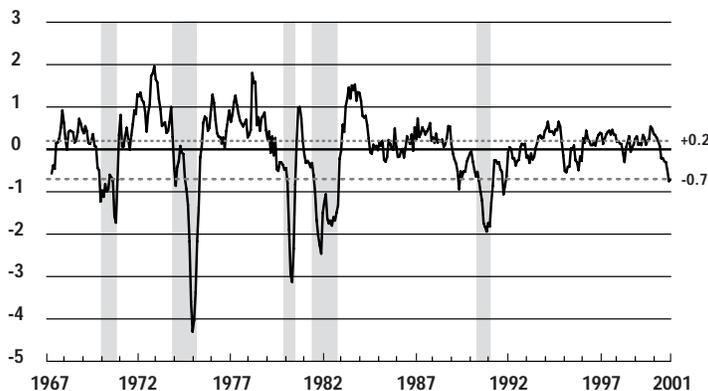


CFNAI-MA3 and Inflation Cycles



(Shading represents periods of substantial inflation increases)

CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession)

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