

News You Can Use

An Introduction to Chicago Fed Indexes



The Chicago Fed National Activity Index (CFNAI)

A *monthly* summary statistic for U.S. economic growth.

- Weighted average of 85 indicators of U.S. economic activity
- Weights capture the relative importance to historical fluctuations
- Covers *four* broad categories of data
 - ① *Production and Income*: e.g., Industrial Production
 - ② *Employment, Unemployment, and Hours*: e.g., Payroll Employment
 - ③ *Personal Consumption and Housing*: e.g., Housing Starts
 - ④ *Sales, Orders, and Inventories*: e.g., Manufacturing & Trade Sales
- First introduced in Evans, Liu, and Pham-Kanter (2001)
- Released toward the **end** of each month at chicagofed.org/cfnai



Proven track record of success over the past 15 years

- 1 95% accuracy in identifying U.S. recessions and expansions
 - Berge and Jorda (2011)
- 2 Led NBER recession dating by 6-18 months in **real time**
 - Brave and Butters (2010)
- 3 Used to “nowcast” GDP growth and forecast inflation
 - Brave and Butters (2014)
- 4 Also, to identify “trend” GDP growth
 - Brave and Butters (2013)
- 5 Leading indicator of inflationary pressures
 - Fisher (2000)



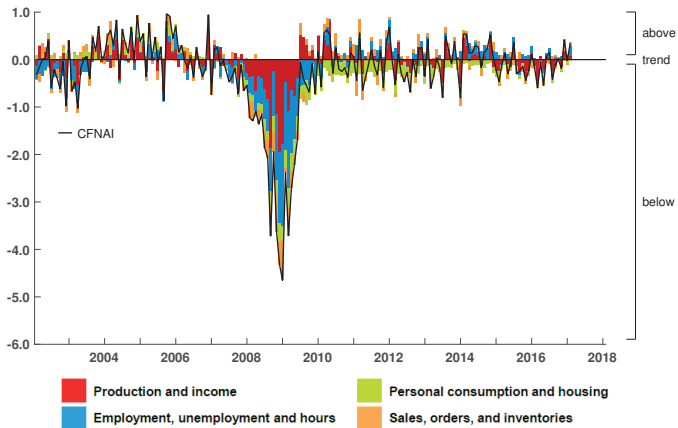
Interpreting the CFNAI

Simple interpretation...a “*Goldilocks*” index

- A value of zero reflects an economy growing at *trend*
- Positive values indicate *above-average* growth
- Negative values indicate *below-average* growth
- Scale is in standard deviations from trend growth

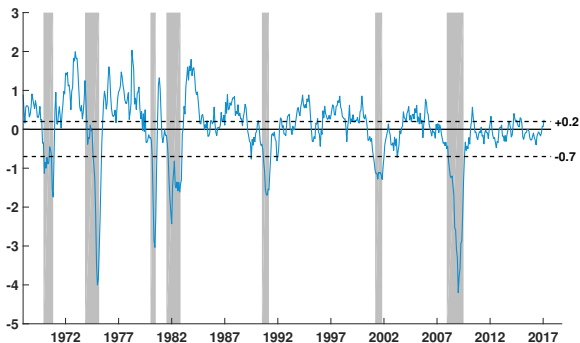
To highlight business cycles and inflationary pressures, focus is given to a 3-month moving average of the index, i.e., the CFNAI-MA3.

The CFNAI and its Components



Background Information

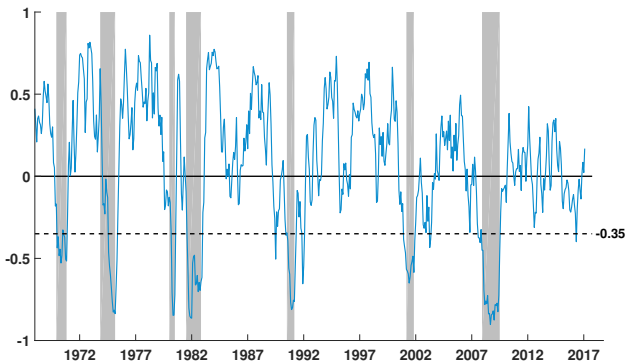
CFNAI-MA3 and Business Cycles



Above -0.7 characteristic of periods of economic expansion
Below -0.7 increasing chance of *recession* | Above $+0.2$ significant chance of *recovery*

The Chicago Fed National Activity Index and Business Cycles

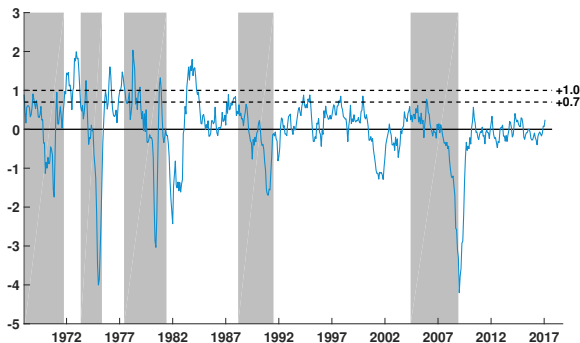
CFNAI Diffusion Index



Above -0.35 characteristic of periods of economic expansion

A Different Way to Review the Chicago Fed National Activity Index

CFNAI-MA3 and Inflation Cycles



More than 2 years into an economic expansion

Above +0.7 increasing chance of *sustained rising inflation* | Above +1.0 substantial

Forecasting Inflation with a Lot of Data

Additional information available at chicagofed.org/research/data/index

Contacts:

Laura LaBarbera
Media Relations
Federal Reserve Bank of Chicago
312-322-2387

Scott Brave
Economic Research
Federal Reserve Bank of Chicago
312-322-5784
sbrave@frbchi.org