Midwest Economy Index

Index suggests Midwest growth well below trend through May

The Midwest Economy Index (MEI), which approximates quarterly growth at a monthly frequency, fell to -9.91 in May from -6.00 in April. Contributions to the May MEI from all four broad sectors of nonfarm business activity and all five Seventh Federal Reserve District states decreased from April. The relative MEI increased to -0.46 in May from -2.37 in April. Contributions to the May relative MEI from two of the four sectors and four of the five states increased from April.

What is the Midwest Economy Index?
The index is a weighted average of 129 state and regional indicators encompassing the entirety of the five states in the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin). The index measures growth in nonfarm business activity based on indicators of four broad sectors of the Midwest economy: 1) manufacturing, 2) construction and mining, 3) services, and 4) consumer spending.

Why are there two index values?
Over long periods, growth in Midwest economic activity has historically tended to coincide with growth in national economic activity. However, over shorter periods of time this has not always been the case. To highlight such differences, we construct two separate index values. The MEI captures both national and regional factors driving Midwest growth, and the relative MEI provides a picture of Midwest growth conditions relative to those of the nation.

What do the index numbers mean?
A zero value for the MEI has been associated with the Midwest economy expanding at its historical trend (average) rate of growth; positive values with above-average growth (in standard deviation units); and negative values with below-average growth. A zero value for the relative MEI has been associated with the Midwest economy growing at a rate historically consistent with the growth of the national economy; positive values with above-average relative growth (in standard deviation units); and negative values with below-average relative growth.

The next MEI will be released:
July 31, 2020
8:30 am Eastern Time
7:30 am Central Time

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The manufacturing sector’s contribution to the MEI moved down to –1.72 in May from –1.21 in April. The pace of manufacturing activity decreased in all five states. Manufacturing’s contribution to the relative MEI rose to +4.01 in May from +0.13 in April.

The construction and mining sector contributed –0.63 to the MEI in May, down from –0.35 in April. The pace of construction and mining activity was slower in all five states. Construction and mining’s contribution to the relative MEI moved up to +0.25 in May from –0.07 in April.

The service sector’s contribution to the MEI fell to –4.43 in May from –2.41 in April. The pace of service sector activity was down in all five states. The service sector’s contribution to the relative MEI decreased to –2.95 in May from –1.53 in April.

Consumer spending indicators contributed –3.13 to the MEI in May, down from –2.03 in April. Consumer spending indicators were, on balance, down in all five states. Consumer spending’s contribution to the relative MEI moved down to –1.75 in May from –0.88 in April.

Starting with this MEI release, a method to treat outliers that matches the CFNAI’s method has been employed. For details, see p. 7 of the background information document for the CFNAI at chicagofed.org/cfnai.

Notes: Both the MEI and the CFNAI-MA3 have been standardized to have a zero mean and are expressed in standard deviation units. MEI values greater than zero point to growth in Midwest economic activity above its historical trend, and CFNAI-MA3 values greater than zero point to growth in national economic activity above its historical trend; negative values suggest the opposite. Shading indicates official periods of recession as identified by the National Bureau of Economic Research; the vertical line indicates the most recent business cycle peak.

Notes: Both the relative MEI and the CFNAI-MA3 have been standardized to have a zero mean and are expressed in standard deviation units. The relative MEI is constructed from the standardized residuals from linear regressions of each of the 129 MEI indicators on the CFNAI-MA3. Relative MEI values greater than zero point to growth in Midwest economic activity that is higher on average than would historically be suggested based on the CFNAI-MA3; negative values suggest the opposite. Shading indicates official periods of recession as identified by the National Bureau of Economic Research; the vertical line indicates the most recent business cycle peak.

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MEI historical data and background information are available at chicagofed.org/mei.