News You Can Use

An Introduction to Chicago Fed Activity Indexes
The National Financial Conditions Index (NFCI)

Weekly update on U.S. financial conditions at chicagofed.org/nfci

- Weighted average of 105 indicators of financial activity
- Weights capture relative importance to historical fluctuations
- Estimated by mixed-frequency dynamic factor analysis
- Broad coverage of the financial system
  1. Money markets
  2. Debt and Equity markets
  3. Traditional and “Shadow” banking systems

Useful in monitoring financial stability and forecasting

- Brave and Butters (2012)
- Brave and Butters (2011)
Interpreting the NFCI and ANFCI

*Risk* measures get positive weights, *Credit* and *Leverage* negative weights

Leads to the following **NFCI** interpretation:

- Scale is in standard deviations from *average* conditions
- Positive values denote *tighter-than-average* conditions
- Negative values denote *looser-than-average* conditions

Adjusted for economic conditions (**ANFCI**)

- Conditional on growth in economic activity and inflation
- Zero means financial conditions typical for given growth and inflation
- Positive values denote tighter conditions; negative values, looser
The NFCI and ANFCI

FAQs
Contributions to the NFCI and ANFCI by Category

National Financial Conditions Index (NFCI)

Adjusted National Financial Conditions Index (ANFCI)

Risk  Credit  Leverage  Adjustment  NFCI

ANFCI
Contributions to the NFCI by Indicator
Contributions to the ANFCI by Indicator

- Markit Investment Grade (IG) 5-yr Senior CDS Index
- 2-yr Interest Rate Swap/Treasury yield spread
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread
- Other Negative
- 30-yr Jumbo/Conforming fixed rate mortgage spread
- COMEX Gold/NYMEX WTI Futures Market Depth
- Other Positive
- Macroeconomic Adjustments
Risk, Credit, and Leverage Subindexes

*Risk* is a coincident, *Credit* a lagging, and *Leverage* a leading indicator of financial stress.

Diagnosing the Financial System
Nonfinancial Leverage Subindex

Nonfinancial leverage is a leading indicator of financial stress and recessions

Detecting Early Signs of Financial Instability
Recent NFCI

![Graph of National Financial Conditions Index (NFCI) for 2020]

- The graph shows the NFCI values from January 31 to May 1.
- The values range from -0.9 to 0.
- The NFCI peaked around April 10.
Change in Recent NFCI Contributions

01/31/2020 - 04/03/2020

- CBOE Market Volatility Index (VIX)
- BofAML 3-5 yr AAA CMBS OAS spread
- COMEX Gold/NYMEX WTI Futures Market Depth
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread
- BofAML High Yield/Moody's Baa corporate bond yield spread
- Moody's Baa corporate bond/10-yr Treasury yield spread
- Markit High Yield (HY) 5-yr Senior CDS Index
- 3-mo. TED spread (LIBOR-Treasury)
- NACM Survey of Credit Managers: Credit Manager's Index
- 3-mo. Eurodollar spread (LIBID-Treasury)

Risk Credit Leverage

Economic Research (FRB Chicago)
Change in Recent NFCI Contributions

04/03/2020 - 05/01/2020

-0.064
-0.025
-0.018
-0.016
-0.012
-0.012
-0.010
-0.009
-0.008

CBOE Market Volatility Index (VIX)
1-mo. BofAML Option Volatility Estimate Index (MOVE)
3-mo. BofAML Swaption Volatility Estimate Index (SMOVE)
COMEX Gold/NYMEX WTI Futures Market Depth
3-mo./1-wk AA Financial commercial paper spread
BofAML 3-5 yr AAA CMBS OAS spread
3-mo. TED spread (LIBOR-Treasury)
Moody's Baa corporate bond/10-yr Treasury yield spread
Markit Investment Grade (IG) 5-yr Senior CDS Index
1-mo. Nonfinancial commercial paper A2P2/AA credit spread

Risk
Credit
Leverage
Recent ANFCI

2020 ANFCI

-0.8 -0.6 -0.4 -0.2 0 0.2 0.4
01/31 02/07 02/14 02/21 02/28 03/06 03/13 03/20 03/27 04/03 04/10 04/17 04/24 05/01
Change in Recent ANFCI Contributions

02/14/2020 - 04/03/2020

- 3-mo. TED spread (LIBOR-Treasury)
- COMEX Gold/NYMEX WTI Futures Market Depth
- BoFA ML 3-5 yr AAA CMBS OAS spread
- CBOE Market Volatility Index (VIX)
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread
- 3-mo. Eurodollar spread (LIBID-Treasury)
- Markit High Yield (HY) 5-yr Senior CDS Index
- Markit Investment Grade (IG) 5-yr Senior CDS Index
- 3-mo./1-wk AA Financial commercial paper spread
- 2-yr Interest Rate Swap/Treasury yield spread

Risk: 0.216
Credit: 0.145
Leverage: 0.087
Change in Recent ANFCI Contributions

04/03/2020 - 5/1/2020

-0.127
-0.047
-0.044
-0.038
-0.035
-0.031
-0.026
-0.025
-0.016
-0.016
NFCI and ANFCI Revisions

Mean Absolute Values of Week-to-Week Revisions

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Note: T denotes the last week of the index at the time of release.

The history of the NFCI and the ANFCI can change from week to week depending on incoming data, data revisions, and changes in the estimated weight given each financial indicator, although these changes tend to be very small. Because they include a number of monthly and quarterly financial indicators that are regularly revised, revisions to the NFCI and ANFCI will tend to be more pronounced near the beginning of each month. The ANFCI is additionally influenced by economic activity and inflation. For details see Chicago Fed Letter No. 386.
NFCI and ANFCI Revisions

NFCI Revisions

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ANFCI Revisions

- Feb 21
- Mar 13
- Apr 03
- Apr 24
- Feb 28
- Mar 20
- Apr 10
- May 01
- Mar 06
- Mar 27
- Apr 17
Additional information available at chicagofed.org/nfci

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