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 Chicago Fed’s New Adjusted National Financial Conditions Index
The NFCI and ANFCI

FAQs
Contributions to the NFCI and ANFCI by Category
Contributions to the NFCI by Indicator

- Markit Investment Grade (IG) 5-yr Senior CDS Index
- 1-mo. BofAML Option Volatility Estimate Index
- 3-mo. BofAML Swaption Volatility Estimate Index
- All Positive
- 30-yr Jumbo/Conforming fixed rate mortgage spread
- 2-yr Interest Rate Swap/Treasury yield spread
- Other Negative
Contributions to the ANFCI by Indicator

- Markit Investment Grade (IG) 5-yr Senior CDS Index
- 3-mo. TED spread (LIBOR-Treasury)
- 3-mo. Eurodollar spread (LIBID-Treasury)
- All Positive
- 2-yr Interest Rate Swap/Treasury yield spread
- 30-yr Jumbo/Conforming fixed rate mortgage spread
- Other Negative
- 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 is a leading indicator of financial stress and recessions

Detecting Early Signs of Financial Instability
Recent NFCI
## Change in Recent NFCI Contributions

**01/31/2020 - 04/03/2020**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Risk</th>
<th>Credit</th>
<th>Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBOE Market Volatility Index (VIX)</td>
<td>0.129</td>
<td></td>
<td></td>
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<tr>
<td>BofAML 3-5 yr AAA CMBS OAS spread</td>
<td>0.116</td>
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<tr>
<td>COMEX Gold/NYMEX WTI Futures Market Depth</td>
<td>0.088</td>
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<tr>
<td>1-mo. Nonfinancial commercial paper A2P2/AA credit spread</td>
<td>0.060</td>
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<tr>
<td>BofAML High Yield/Moody's Baa corporate bond yield spread</td>
<td>0.051</td>
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<tr>
<td>Moody's Baa corporate bond/10-yr Treasury yield spread</td>
<td>0.044</td>
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<tr>
<td>3-mo. TED spread (LIBOR-Treasury)</td>
<td>0.035</td>
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<tr>
<td>Markit High Yield (HY) 5-yr Senior CDS Index</td>
<td>0.034</td>
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<tr>
<td>NACM Survey of Credit Managers: Credit Manager's Index</td>
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<tr>
<td>3-mo. Eurodollar spread (LIBID-Treasury)</td>
<td>0.022</td>
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</table>
Change in Recent NFCI Contributions

04/03/2020 - 05/22/2020

-0.079
-0.041
-0.036
-0.033
-0.032
-0.031
-0.027
-0.023
-0.021
-0.016
Recent ANFCI

2020 ANFCI

Economic Research (FRB Chicago)
Change in Recent ANFCI Contributions

02/14/2020 - 04/03/2020

- 3-mo. TED spread (LIBOR-Treasury): 0.139
- COMEX Gold/NYMEX WTI Futures Market Depth: 0.130
- CBOE Market Volatility Index (VIX): 0.107
- BofAML 3-5 yr AAA CMBS OAS spread: 0.103
- Markit Investment Grade (IG) 5-yr Senior CDS Index: 0.083
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread: 0.072
- Markit High Yield (HY) 5-yr Senior CDS Index: 0.070
- 3-mo. Eurodollar spread (LIBID-Treasury): 0.053
- 2-yr Interest Rate Swap/Treasury yield spread: 0.048
- BofAML High Yield/Moody's Baa corporate bond yield spread: 0.029

Risk Credit Leverage
Change in Recent ANFCI Contributions

04/03/2020 - 5/22/2020

-0.130
-0.069
-0.066
-0.050
-0.041
-0.040
-0.040
-0.036
-0.025
-0.024
-0.014
-0.012
-0.01
-0.008
-0.006
-0.004
-0.002
0

Risk
Credit
Leverage
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.
NFCl and ANFCI Revisions

NFCl Revisions

Dec | Jan | Feb | Mar | Apr | May

- Feb 21
- Mar 13
- Apr 03
- Apr 24
- May 15
- Feb 28
- Mar 20
- Apr 10
- May 01
- May 22
- Mar 06
- Mar 27
- Apr 17
- May 08
NFCl and ANFCl Revisions

ANFCl Revisions

Dec | Jan | Feb | Mar | Apr | May

Feb 21 | Mar 13 | Apr 03 | Apr 24 | May 15
Feb 28 | Mar 20 | Apr 10 | May 01 | May 22
Mar 06 | Mar 27 | Apr 17 | May 08
Additional information available at chicagofed.org/nfci

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