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

- Markit Investment Grade (IG) 5-yr Senior CDS Index
- 3-mo. TED spread (LIBOR-Treasury)
- 30-yr Jumbo/Conforming fixed rate mortgage spread
- All Positive
- 2-yr Interest Rate Swap/Treasury yield spread
- Markit High Yield (HY) 5-yr Senior CDS Index
- 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

2020 NFCI
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 - 06/12/2020

CBOE Market Volatility Index (VIX) -0.076
1-mo. Nonfinancial commercial paper A2P2/AA credit spread -0.055
COMEX Gold/NYMEX WTI Futures Market Depth -0.052
BofAML 3-5 yr AAA CMBS OAS spread -0.047
3-mo. TED spread (LIBOR-Treasury) -0.039
BofAML High Yield/Moody's Baa corporate bond yield spread -0.033
3-mo. Eurodollar spread (LIBID-Treasury) -0.025
NACM Survey of Credit Managers: Credit Manager's Index -0.024
1-mo. BofAML Option Volatility Estimate Index (MOVE) -0.023
3-mo. BofAML Swaption Volatility Estimate Index (SMOVE) -0.020

Risk Credit Leverage
Recent ANFCI

2020 ANFCI
Change in Recent ANFCI Contributions

02/14/2020 - 04/03/2020

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

Risk: 0.131
Credit: 0.104
Leverage: 0.086

Economic Research (FRB Chicago)
Change in Recent ANFCI Contributions

<table>
<thead>
<tr>
<th>Index Description</th>
<th>Risk Change</th>
<th>Credit Change</th>
<th>Leverage Change</th>
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<tbody>
<tr>
<td>3-mo. TED spread (LIBOR-Treasury)</td>
<td>-0.121</td>
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<tr>
<td>COMEX Gold/NYMEX WTI Futures Market Depth</td>
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<tr>
<td>CBOE Market Volatility Index (VIX)</td>
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<td>Markit Investment Grade (IG) 5-yr Senior CDS Index</td>
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<tr>
<td>BofAML 3-5 yr AAA CMBS OAS spread</td>
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<td>2-yr Interest Rate Swap/Treasury yield spread</td>
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<tr>
<td>1-mo. BofAML Option Volatility Estimate Index (MOVE)</td>
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<td>-0.022</td>
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NFCI and ANFCI Revisions

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

Jan

Feb 21  Mar 20  Apr 17  May 15  Jun 12
Feb 28  Mar 27  Apr 24  May 22
Mar 06  Apr 03  May 01  May 29
Mar 13  Apr 10  May 08  Jun 05
NFCI and ANFCI Revisions

ANFCI Revisions

Jan | Apr
---|---
Feb 21 | May 15 | Jun 12
Mar 20 | Apr 17 | May 22
Apr 24 | May 01 | May 29
Mar 06 | Apr 03 | May 08
Mar 13 | Apr 10 | Jun 05
Additional information available at chicagofed.org/nfci

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