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

- CBOE Market Volatility Index VIX
- 30-yr Jumbo/Conforming fixed rate mortgage spread
- Markit Investment Grade (IG) 5-yr Senior CDS Index
- COMEX Gold/NYMEX WTI Futures Market Depth
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread
- Other Positive
- Other Negative
Contributions to the ANFCI by Indicator

- Market Investment Grade (IG) 5-yr Senior CDS Index
- CBOE Market Volatility Index VIX
- COMEX Gold/NYMEX WTI Futures Market Depth
- 2-yr Interest Rate Swap/Treasury yield spread
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread
- Other Positive
- 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 Subindex

Nonfinancial leverage is a leading indicator of financial stress and recessions

Detecting Early Signs of Financial Instability
Recent NFCI

Economic Research (FRB Chicago)
Change in Recent NFCI Contributions

01/31/2020 - 03/20/2020

- CBOE Market Volatility Index (VIX): 0.181
- COMEX Gold/NYMEX WTI Futures Market Depth: 0.088
- BofAML 3-5 yr AAA CMBS OAS spread: 0.069
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread: 0.051
- BofAML High Yield/Moody’s Baa corporate bond yield spread: 0.044
- 1-mo. BofAML Option Volatility Estimate Index (MOVE): 0.043
- Moody’s Baa corporate bond/10-yr Treasury yield spread: 0.037
- 3-mo. BofAML Swaption Volatility Estimate Index (SMOVE): 0.032
- Markit High Yield (HY) 5-yr Senior CDS Index: 0.028
- Markit Investment Grade (IG) 5-yr Senior CDS Index: 0.022

Risk Credit Leverage
Recent ANFCI

2020 ANFCI

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

02/07/2020 - 03/20/2020

- COMEX Gold/NYMEX WTI Futures Market Depth: 0.170
- CBOE Market Volatility Index (VIX): 0.130
- 3-mo. TED spread (LIBOR-Treasury): 0.129
- 1-mo. Nonfinancial commercial paper A2P2/AA credit spread: 0.079
- Markit Investment Grade (IG) 5-yr Senior CDS Index: 0.071
- BoA/ML 3-5 yr AAA CMBS OAS spread: 0.064
- Markit High Yield (HY) 5-yr Senior CDS Index: 0.056
- 3-mo. Eurodollar spread (LIBID-Treasury): 0.047
- 1-mo. Asset-backed/Financial commercial paper spread: 0.046
- 1-mo. BoA/ML Option Volatility Estimate Index (MOVE): 0.038

Risk Credit Leverage

Economic Research (FRB Chicago)
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.

### Mean Absolute Values of Week-to-Week Revisions

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<th>Series</th>
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<th>T-3</th>
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Note: T denotes the last week of the index at the time of release.
NFCl and ANFCI Revisions

NFCl Revisions

[Graph showing revisions from December 2020 to March 2020, with different colored lines representing different dates: 2020-02-21, 2020-02-28, 2020-03-06, 2020-03-13, and 2020-03-20.]
NFCI and ANFCI Revisions

ANFCI Revisions

Dec 2020-02-21 2020-02-28 2020-03-06 2020-03-13 2020-03-20

-0.75 -0.50 -0.25 0.00 0.25

Dec Jan Feb Mar
Additional information available at chicagofed.org/nfci

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