

News You Can Use

An Introduction to Chicago Fed 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 (2011)

Interpreting the NFCI and ANFCI

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

Leads to the following **NFCI** interpretation:

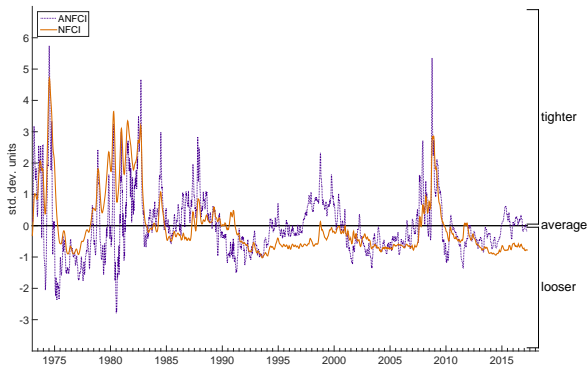
- Scale is in standard deviations from *average* conditions
- Positive values denote *tighter-than-average* conditions
- Negative values denote *looser-than-average* conditions

Adjusted for economic conditions (**ANFCI**)

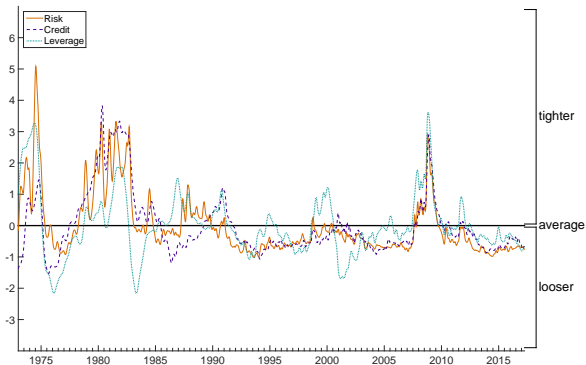
- Conditional on CFNAI-MA3 and PCE inflation
- Zero means financial conditions typical for given growth and inflation
- Positive values denote tighter conditions; negative values, looser



The NFCI and ANFCI



Risk, Credit, and Leverage

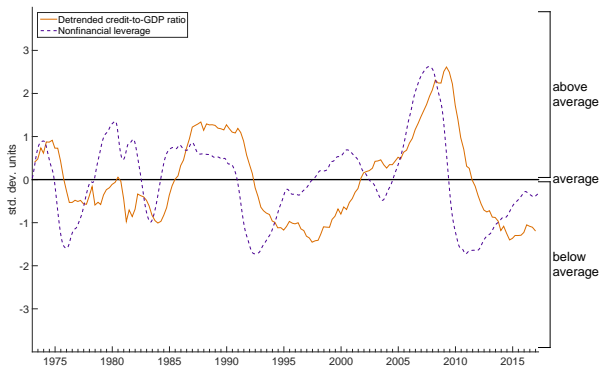


Risk is a coincident, *Credit* a lagging, and *Leverage* a leading indicator of financial stress

Diagnosing the Financial System



Nonfinancial Leverage



Nonfinancial leverage is a leading indicator of financial stress and recessions

Detecting Early Signs of Financial Instability



Additional information available at chicagofed.org/research/data/index

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