

News Release

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The monthly CFNAI index, a weighted average of 85 indicators of national economic activity, is constructed to have an average value of zero and a standard deviation of one. A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values are associated with below-trend growth, while positive values indicate above-trend growth. Month-to-month movements in the CFNAI can be volatile, so a three-month moving average version, the CFNAI-MA3, provides a more consistent picture of national economic growth. The 85 economic indicators that comprise the CFNAI are drawn from five broad categories of data: 1) production and income; 2) employment, unemployment, and hours; 3) personal consumption and housing; 4) manufacturing and trade sales; and 5) inventories and orders.

The next CFNAI will be released:
September 30, 2002
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

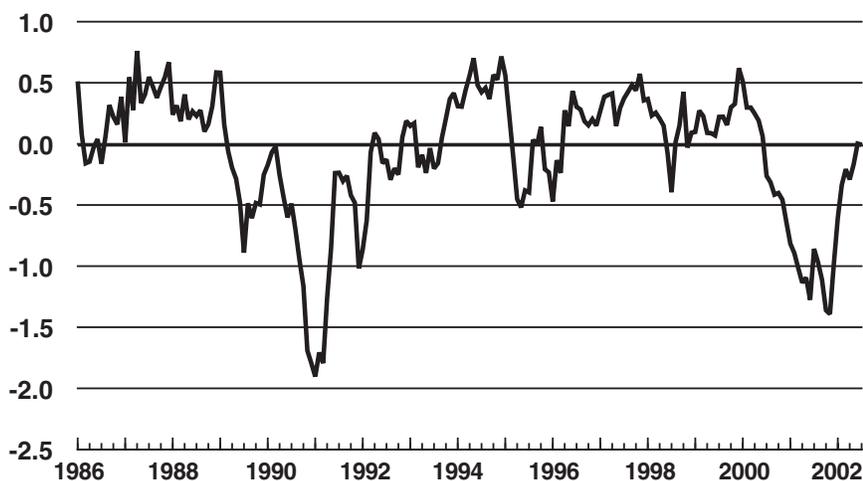
CFNAI reflects economic softness in July

In July, the Chicago Fed National Activity Index (CFNAI) fell below zero after being positive in the two previous months. Weakness in the employment-related data accounted for the largest negative contributions to the July index. The monthly index came in at -0.25 in July, down from $+0.20$ in June. July's decline broke a string of consecutive monthly increases dating back to March. The three-month moving average index, CFNAI-MA3, was -0.01 in July.

Recent increases in the CFNAI-MA3 through June indicate that the national economy improved substantially in the first half of 2002. But the drop in July's monthly index combined with the previous two months' increases to leave the July CFNAI-MA3 near zero, virtually unchanged from June. When the CFNAI-MA3 is near zero, the pace of economic growth is not far from the long-run historical average, and inflationary pressures are not likely to change over the coming year.

Of the five broad data categories underlying the CFNAI (see sidebar), the principal negative influence in July came from the labor-market-related data category. Total nonfarm payroll employment was virtually unchanged in July, rising by only 6,000. Similarly, the unemployment rate was unchanged at 5.9 percent. With broad weakness in labor market data relative to their historical averages, this category continued to contribute negatively to the index. The other four categories made small, largely offsetting contributions to the index. After positive contributions in May and June, the production and income category made a small negative

Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI-MA3)



CFNAI and CFNAI-MA3 for the latest six months and year-ago month

	Jul '02	Jun '02	May '02	Apr '02	Mar '02	Feb '02	Jul '01
CFNAI							
Current	-0.25	+0.20	+0.02	-0.22	-0.30	-0.35	-0.35
Previous	N/A	+0.14	-0.04	-0.20	-0.28	-0.32	-0.31
CFNAI-MA3							
Current	-0.01	0.00	-0.17	-0.29	-0.21	-0.34	-0.86
Previous	N/A	-0.03	-0.17	-0.27	-0.19	-0.31	-0.84

Current and Previous values reflect index values as of the August 29, 2002, release and July 25, 2002, release, respectively. N/A indicates not applicable.

contribution to the overall index in July. Manufacturing activity generally expanded in July, but the sectoral gains for the most part were small. The Institute for Supply Management's Purchasing Managers' Index fell to 50.5; this level of activity is associated with expansion in the sector, but is below its average. July industrial production in manufacturing rose by 0.1 percent, but nondurable goods production declined. Capacity utilization in the manufacturing sector continued to be below its historical average. In other notable data for July, housing starts and building permits fell, but remained at high levels relative to their historical averages. On net, the consumption and housing category continued to make a small positive contribution to the CFNAI.

Overall, 49 of the 85 individual indicators displayed below-average growth in July. While 26 of the 85 series improved relative to June, ten of these still indicated below-average growth. The CFNAI is constructed using data available as of August 27. At that time, July data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The estimate of the CFNAI for June was revised up from +0.14 to +0.20. Revisions to the index can be attributed to two main factors:

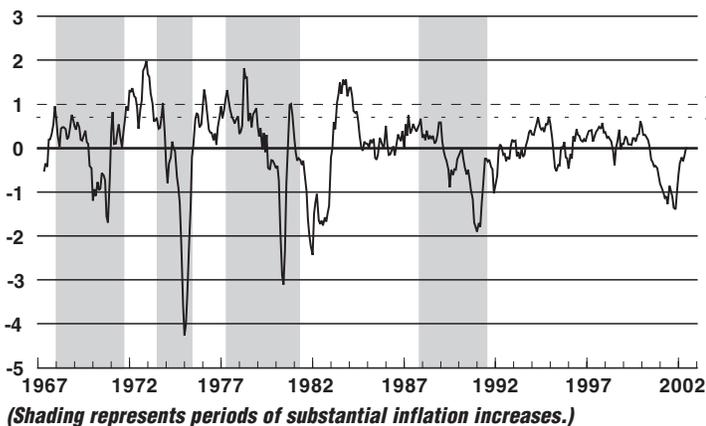
revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The upward revision to the June CFNAI was mostly due to differences between the estimates of previously unavailable data and subsequently published data.

For a recent analysis on the CFNAI as an indicator of economic conditions, see the article, "The 2001 recession and the Chicago Fed National Activity Index: Identifying business cycle turning points," in the Third Quarter 2002 issue of *Economic Perspectives*, at www.chicagofed.org/publications/economicperspectives/index.cfm.

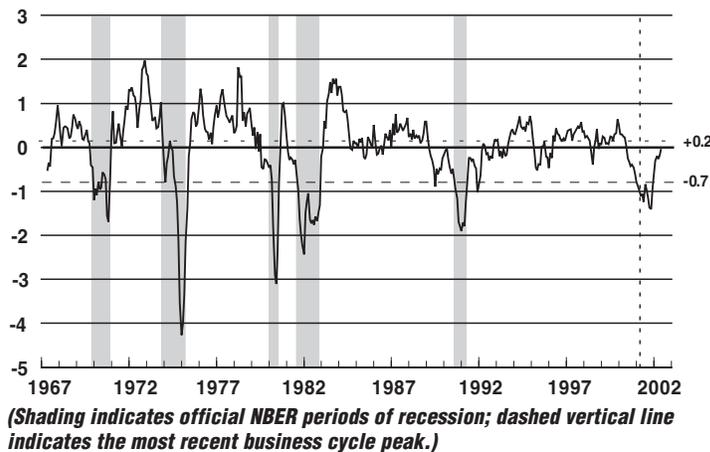
Interpreting the CFNAI-MA3

If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 > +0.20 following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...	Increasing likelihood that a period of sustained accelerating inflation has begun.
If CFNAI-MA3 > +1.00 more than two years into an economic expansion...	Substantial likelihood that a period of sustained accelerating inflation has begun.

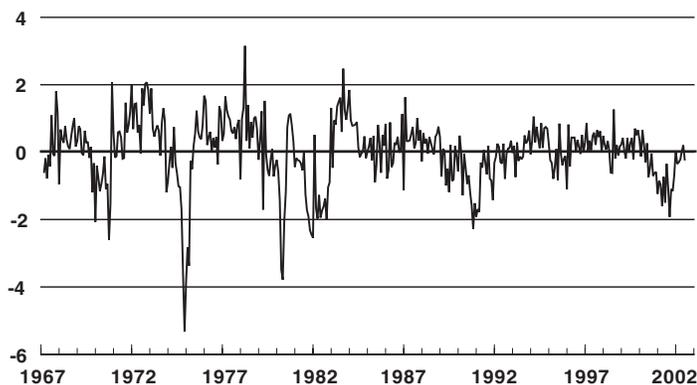
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2002 CFNAI Release Dates

Date of Release	Monthly Data for:
September 30, 2002	August 2002
October 30, 2002	September 2002
November 21, 2002	October 2002
December 19, 2002	November 2002

CFNAI historical data and background information are available on the Federal Reserve Bank of Chicago's website at <http://www.chicagofed.org>.