

## News Release

Embargoed for release:  
10:00 am Eastern Time  
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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 25, 2003  
10:00 am Eastern Time  
9:00 am Central Time

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OF CHICAGO

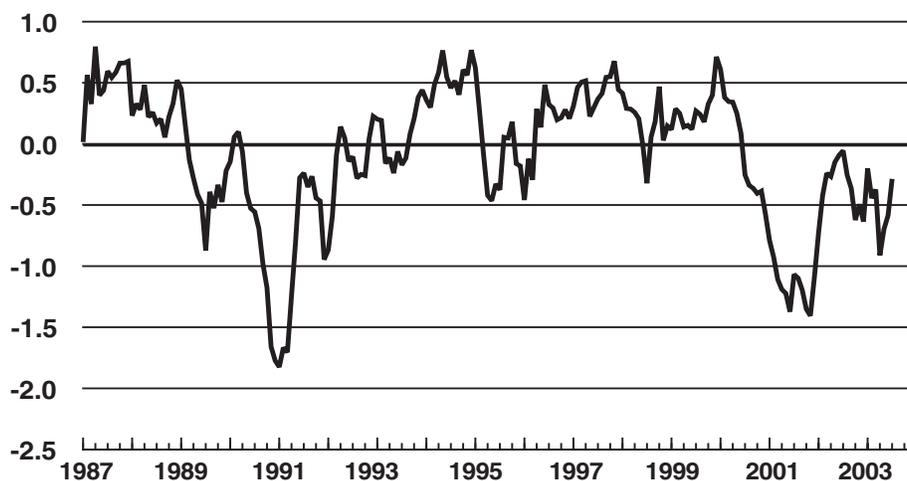
# Chicago Fed National Activity Index

## CFNAI indicates economic activity improved again in July

The Chicago Fed National Activity Index (CFNAI) was  $-0.20$  in July, a small improvement from the June reading of  $-0.32$ . The negative value for the index in July reflected continued weakness in employment-related data; the contributions of other components of the CFNAI netted to a small positive value. The three-month moving average index, CFNAI-MA3, improved as well, from  $-0.59$  in June to  $-0.29$  in July. CFNAI-MA3 values below zero are associated with below-trend economic growth. Accordingly, the CFNAI-MA3 value of  $-0.29$  suggests that growth in national economic activity continued to be below its historical trend in July. The relatively large increase in the July CFNAI-MA3 reflects the fact that the three-month average no longer includes the very low monthly reading recorded in April,  $-1.10$ , when the economy was most severely influenced by the conflict in Iraq. With regard to inflation, CFNAI-MA3 values below zero signal reduced inflationary pressures over the coming year.

Among the five broad subcategories comprising the index (see sidebar), the employment-related data accounted for  $-0.30$  of the  $-0.20$  value of the overall index in July. Private payrolls fell 34,000 in July—about half of the loss in the prior month—and the unemployment rate fell 0.2 percentage point to 6.2 percent. Despite these improvements, the employment-related-data contribution was slightly worse in July than the revised June contribution of  $-0.28$ . This worsening was mostly due to durable manufacturing employment falling by 54,000 in July, a larger decline than in June. The contribution of the output-related components was the main reason for the improvement in the monthly index in July. At  $+0.07$ , it was much

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 '03	Jun '03	May '03	Apr '03	Mar '03	Feb '03	Jul '02
<b>CFNAI</b>							
Current	-0.20	-0.32	-0.34	-1.10	-0.66	-0.98	-0.01
Previous	N/A	-0.32	-0.40	-1.04	-0.66	-0.98	-0.01
<b>CFNAI-MA3</b>							
Current	-0.29	-0.59	-0.70	-0.91	-0.37	-0.44	-0.05
Previous	N/A	-0.58	-0.70	-0.89	-0.37	-0.44	-0.06

Current and Previous values reflect index values as of the August 28, 2003, release and July 30, 2003, release, respectively. N/A indicates not applicable.

better than the revised  $-0.09$  recorded for June, and the first positive output-related contribution since January. Within this category, total industrial production (IP) climbed 0.5 percent after being unchanged in June, while manufacturing IP rose 0.2 percent in July after a 0.3 percent increase in June. Rising to 51.8, the Institute for Supply Management's Purchasing Managers' Index also indicated expanding manufacturing activity in July. The contributions of each of the other three categories in the CFNAI—personal consumption and housing, manufacturing and trade sales, and inventories and orders—netted to  $+0.03$  for the monthly index. This is similar to the net contribution made in June.

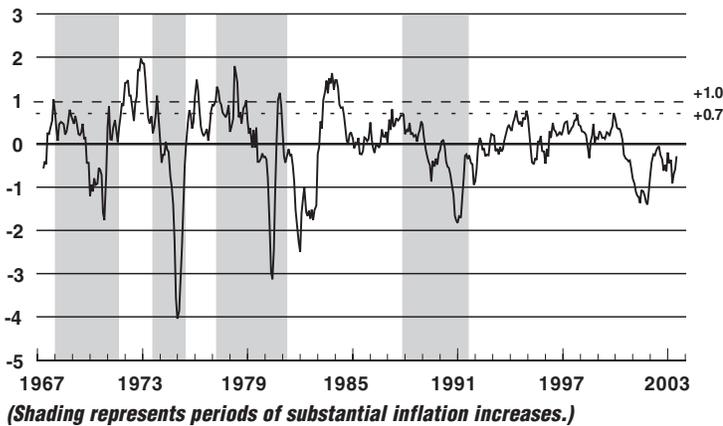
Overall, 56 of the 85 individual indicators displayed below-average growth in July. Forty-three individual series improved between June and July, although 23 of these still indicated below-average growth. The July CFNAI is constructed using data available as of August 26. At that time, July data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

At  $-0.32$ , the revised estimate of the CFNAI for June was unchanged from its initial estimate. 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. Both of these factors were very small in June.

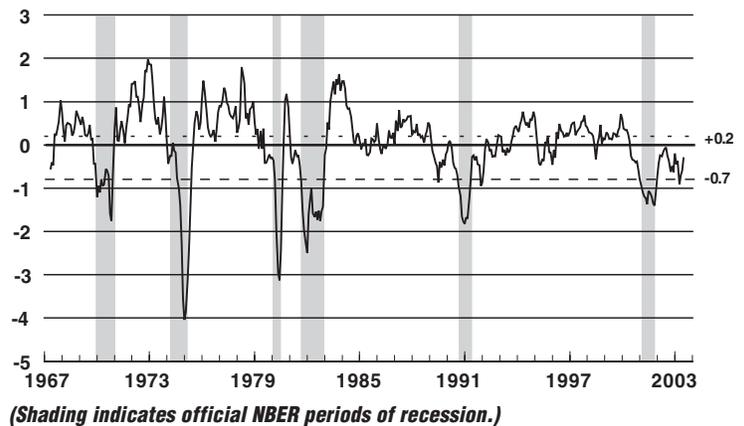
### Interpreting the CFNAI-MA3

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.

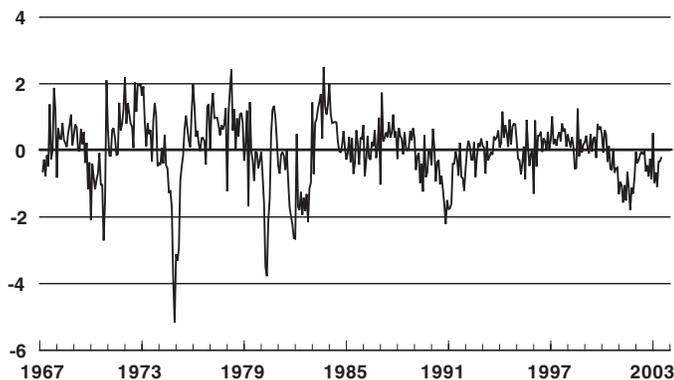
### CFNAI-MA3 and Inflation Cycles



### CFNAI-MA3 and Business Cycles



### CFNAI, Monthly Index



### 2003 CFNAI Release Dates

Date of Release	Monthly Data for:
September 25, 2003	August 2003
October 30, 2003	September 2003
November 20, 2003	October 2003
December 18, 2003	November 2003

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