



# Economics Group

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## Chicago Fed National Activity Index Weakens in August

*The Chicago Fed's National Activity Index weakened considerably in August, tumbling 0.75 points to -0.87. The index, which is comprised of 85 components, has now been in negative territory for six months in a row.*

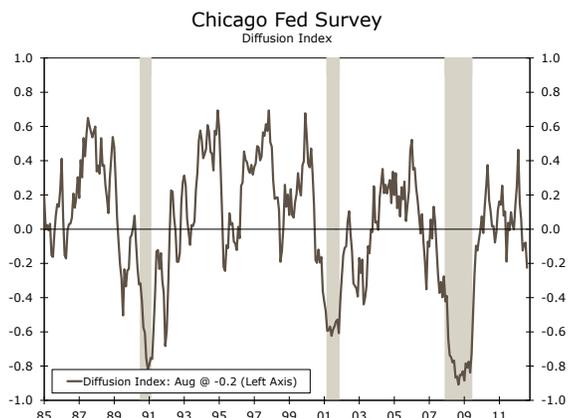
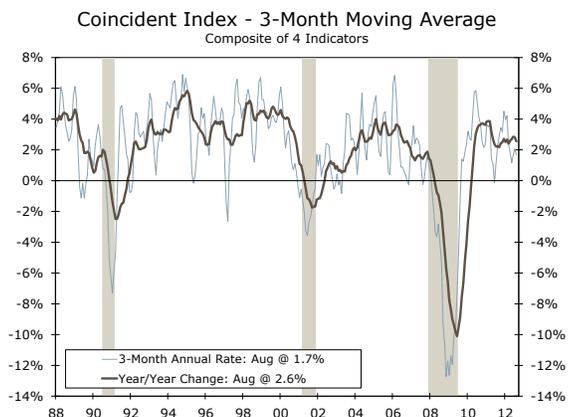
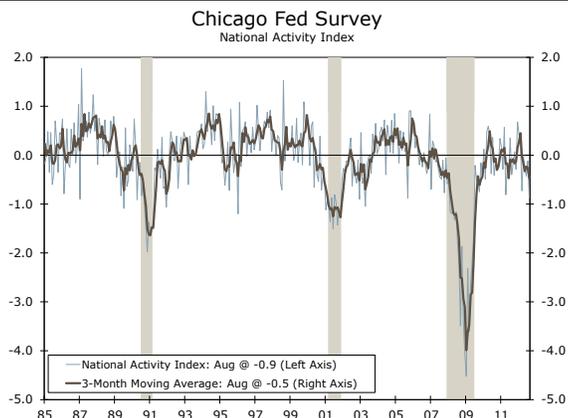
### More Doubts About the Viability of the Recovery

The Federal Reserve Bank of Chicago's National Activity Index (CFNAI) fell 0.75 points in August to -0.87, which marks the lowest level for this index since June 2009, when the economy was just emerging from the Great Recession. The index has averaged -0.47 over the past three months and the weakness in August was fairly widespread. The CFNAI examines 85 monthly economic indicators and has provided a reliable warning of past economic rough spots. *A reading below zero indicates the economy is growing at a below-trend pace and a reading below -0.70 on a three-month moving average basis is consistent with the onset of recession.*

Both the monthly and three-month measures of the CFNAI have been negative for the past six months, which is consistent with below trend economic growth and lessening inflationary pressures. Most other broad measures of aggregate economic activity, such as real GDP, which grew at just a 1.7 percent pace during the second quarter, and the Conference Board's Coincident Index, which has slowed notably since March, generally confirm this weakness.

While the CFNAI is not widely followed on Wall Street and this morning's much weaker number has barely been mentioned on a slow economic news day, the index carries much more weight with policymakers. Research by economists at Harvard, Princeton and the Federal Reserve Bank of Chicago have shown that the CFNAI often provides early indications of business cycle turning points and changes in inflationary pressures. That said, month-to-month changes in the CFNAI can be quite large. The latest plunge is probably less important than the persistent weakness in the index. Moreover, all four major categories declined in August, with about two-thirds of the drop coming in the production and income category, which fell to -0.58. The August drop may have been exaggerated by swings in motor vehicle assemblies, which have run counter to the normal seasonal pattern. But, even accounting for larger than usual swings in motor vehicle assemblies, the factory sector is clearly losing steam, most likely reflecting some slowdown in orders from overseas.

Another concern from the August data is that declines are becoming more widespread. The CFNAI diffusion index, which measures the magnitude of the changes in its 85 components on a weighted average basis, fell to -0.23 in August, which marks the lowest reading since August 2009. Once again, the latest drop is probably of less concern than the recent trend, which has seen the CFNAI diffusion index in negative territory for four months in a row, marking the longest string of negative numbers since December 2009. The weakness in the CFNAI may help explain why the Fed seems so much more concerned about the economic outlook than the financial markets have been.



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