

DAILY GLOBAL COMMENTARY

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The Chicago Fed's Index Consistent with Other Economic Data

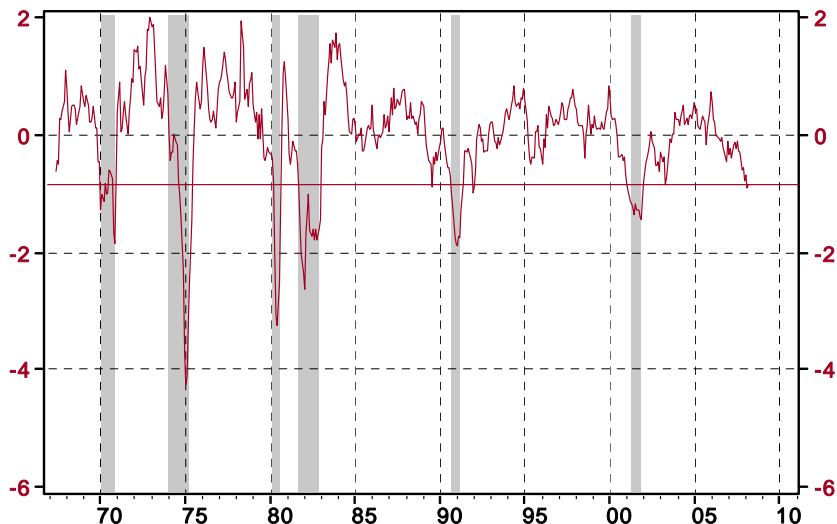
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The Chicago Fed's National Activity Index (CFNAI) increased slightly to -0.78 in March from -1.28 in February, representing continued weakness in economic conditions. With the exception of four monthly readings, this index has carried a negative sign for two years. The 3-month moving average of the CFNAI was -0.86 in March, which exceeds the demarcation line of -0.7. According to the Chicago Fed, when the "3-month moving average of the CFNAI moves below -0.7 following a period of economic expansion, there is an increasing likelihood a recession has begun." Although the National Bureau of Economic Research is yet to announce that a recession is underway, incoming data strongly suggest that the economy is in recession. The more important questions now are about the depth and duration of the recession and what is the nature of the recovery process. In terms of duration, the recession could be close to the average post-war recession of 10 months, but the severe credit crunch that is hampering the smooth functioning of financial markets supports forecasts of a prolonged and sluggish recovery.

Chart 1

FRB Chicago National Activity Index: 3 Mo. Moving Average

+ = growth above trend



Source: Federal Reserve Bank of Chicago /Haver Analytics