CHICAGO BUSINESS ACTIVITY INDEX

CBAI fell slightly in October

The Chicago Business Activity Index (CBAI) was -0.04 in October, the first negative signal after fourteen consecutive positive readings since August 2005. This was mainly attributed to the decrease of construction and manufacturing production. Considering that the CBAI leads the local business cycle and negative values of this index are associated with below-trend growth, the Chicago economy is likely to be losing momentum for the expansion in the near term. And, the CBAI prediction also suggests the further decline in the growth of economic activities over the next 12 months.

In October, the national economy presented some negative features. Retail sales and non-manufacturing employment decreased 0.5 percent and 0.3 percent, respectively. Further, construction decreased 0.6 percent reflecting the year-long slump in the housing market.

The economic performance in Chicago showed mixed features in October. The Chicago Fed Midwest Manufacturing Index and construction decreased 0.4 percent and 0.7 percent, respectively. However, retail sales increased 1.3 percent.

The national economy and regional economy are expected to continue on a slower economic growth trend, clarifying the signal of a weakening economy. For the national economy, the consumer confidence index of the Conference Board declined further in November (105.1 → 102.9). In addition, during the six-month span through October, the leading index of the Conference Board decreased 0.2 percent, resulting from a continuing sharp drop in housing permits. For the local economy, considering the increasing signals of weakness in the nation’s economic performance and the shrinking local manufacturing production since August, economic growth is likely to be below the historical trend for the next year.

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<table>
<thead>
<tr>
<th>CBAI</th>
<th></th>
<th>1 month</th>
<th>3 month</th>
<th>1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical (ago)</td>
<td>0.179</td>
<td>0.140</td>
<td>0.186</td>
<td></td>
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<tr>
<td>Forecast (ahead)</td>
<td>0.006</td>
<td>-0.051</td>
<td>-0.170</td>
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The Chicago Business Activity Index (CBAI) is a monthly statistic that measures the changes in the business cycle status of the six-county Chicago region. The CBAI leads the local business cycle by three-to-four months. REAL’s approach to constructing this index, using the principle components regression method, directs attention to the relationship between local and national business cycle.

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