

News Release

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
October 30, 2003

Contact:
James Pieper
Coordinator, Media Relations
312-322-2387

Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, IL 60604

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:
November 20, 2003
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

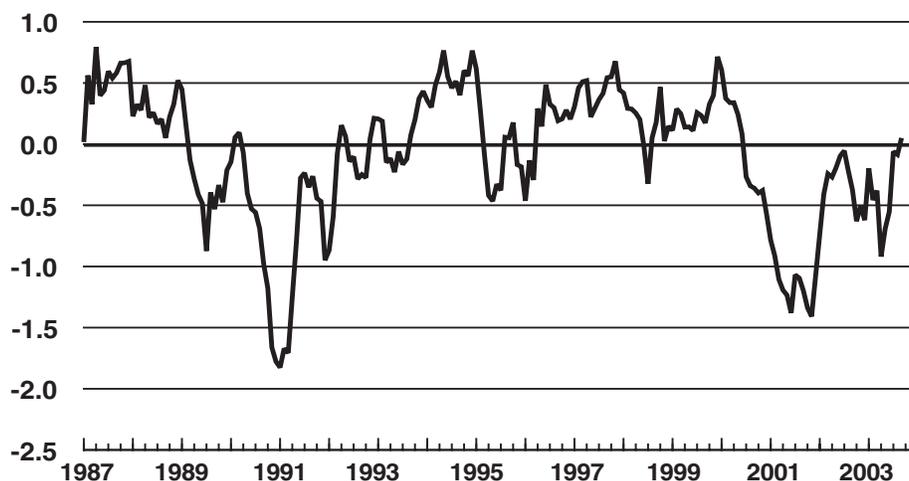
Chicago Fed National Activity Index

CFNAI indicates economy improved in September

The Chicago Fed National Activity Index (CFNAI) was +0.20 in September, a sharp rebound from the downward revised August reading of -0.40. The positive value for the index in September reflected renewed strength in the output-related data, a marked improvement in the employment-related data, and continued robust housing-related data compared to August; 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 a revised -0.08 in August to +0.05 in September. This was the first positive reading for the CFNAI-MA3 since June 2000. CFNAI-MA3 values above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.05 suggests that growth in national economic activity in September was slightly above its historical trend. With regard to inflation, CFNAI-MA3 values above zero signal increased inflationary pressures over the coming year. The small positive value of the CFNAI-MA3 indicates these inflationary pressures are slight.

Among the five broad subcategories comprising the index (see sidebar), the output-related data accounted for +0.17, or almost all, of the +0.20 value of the overall index in September. This positive contribution was concentrated mostly in the manufacturing sector. Manufacturing industrial production rose 0.7 percent, while the capacity utilization rate in this sector climbed 0.4 percentage point. The Institute for Supply Management's Purchasing Managers' Index was 53.7, down slightly from August but still indicating continued expansion in manufacturing activity. The employment-related data improved in September relative to

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



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

	Sep '03	Aug '03	Jul '03	Jun '03	May '03	Apr '03	Sep '02
CFNAI							
Current	+0.20	-0.40	+0.35	-0.21	-0.33	-1.12	-0.49
Previous	N/A	-0.28	+0.05	-0.24	-0.34	-1.12	-0.46
CFNAI-MA3							
Current	+0.05	-0.08	-0.06	-0.55	-0.69	-0.92	-0.37
Previous	N/A	-0.16	-0.18	-0.57	-0.70	-0.92	-0.37

Current and Previous values reflect index values as of the October 30, 2003, release and September 25, 2003, release, respectively. N/A indicates not applicable.

August, but were still a drag on the monthly index, contributing -0.07 . Nonfarm payroll employment rose 57,000 in September, recovering the loss in the prior month. Most of the job gains were in the service sector where employment climbed by 74,000. Although the manufacturing sector lost another 29,000 jobs in September, this was the smallest job loss since July 2002. 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 $+0.10$ for the monthly index. Of these, the housing data were the strongest as housing starts rose 3.4 percent in September.

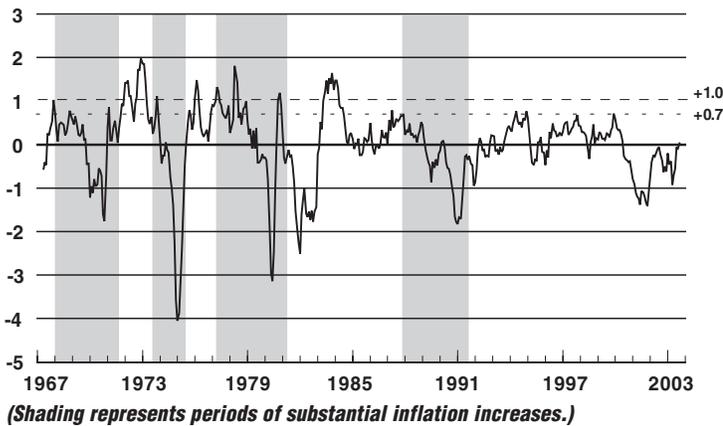
Overall, 46 of the 85 individual indicators made positive contributions to the index in September. Fifty-seven individual series improved between August and September, although 21 of these still indicated below-average contributions to the index. The September CFNAI was constructed using data available as of October 28. At that time, September 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 August was revised downward to -0.40 from its initial estimate of -0.28 . 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. About three-quarters of the revision to the August number was due to revisions to previously published data.

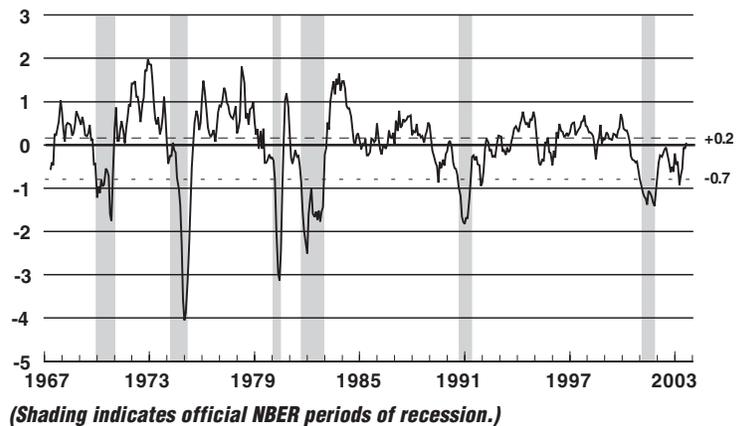
Interpreting the CFNAI-MA3

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.

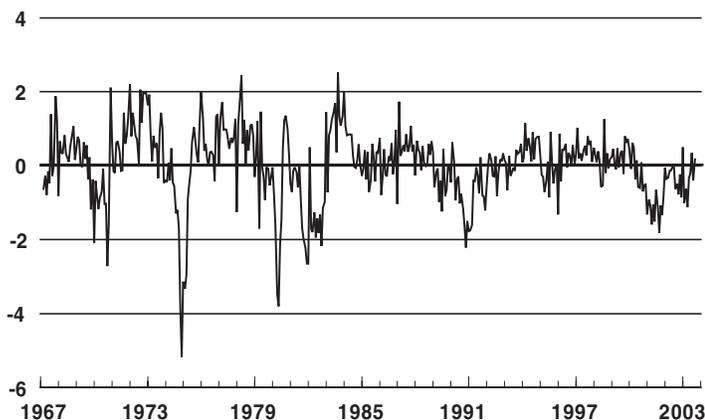
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2003–2004 CFNAI Release Dates

Date of Release	Monthly Data for:
November 20, 2003	October 2003
December 18, 2003	November 2003
January 29, 2004	December 2003
February 25, 2004	January 2004
March 24, 2004	February 2004
April 22, 2004	March 2004
May 20, 2004	April 2004
June 30, 2004	May 2004
July 22, 2004	June 2004
August 19, 2004	July 2004
September 23, 2004	August 2004
October 21, 2004	September 2004
November 23, 2004	October 2004
December 21, 2004	November 2004

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