

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central 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 four broad categories of data: 1) production and income; 2) employment, unemployment, and hours; 3) personal consumption and housing; and 4) sales, orders, and inventories.

The next CFNAI will be released:  
**January 26, 2005**  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

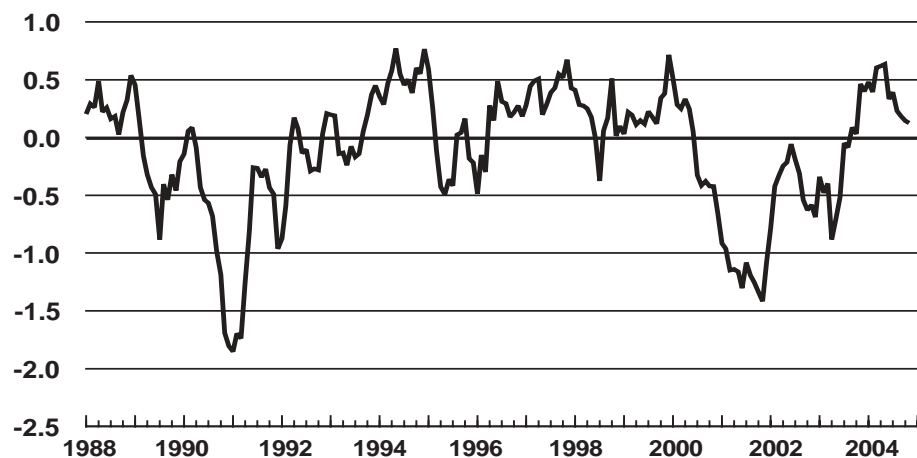
## CFNAI points to above-trend economic growth in November

The Chicago Fed National Activity Index was +0.12 in November, down markedly from +0.49 in October. Three of the four broad categories of indicators that comprise the index made small positive contributions, while the employment-related category made a slight negative contribution. The three-month moving average, CFNAI-MA3, a more consistent measure of economic growth, was nearly unchanged in November at +0.13. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.13 in November suggests that growth in national economic activity was above its historical trend for the fifteenth straight month. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Much of the decrease in the CFNAI from October to November was due to a swing in the contribution of employment-related indicators, from +0.13 in October to -0.01 last month. After rising by a revised 303,000 in October, nonfarm payroll employment increased by 112,000 in November, a gain well below its historical average. In addition, average weekly hours in manufacturing fell slightly. A small decline in the unemployment rate helped mitigate the negative contribution from other employment-related data.

The production-related category also accounted for a considerable part of the decline in the CFNAI in November, making a much smaller positive contribution to the index (+0.04) than in October (+0.23). Total industrial production (IP) increased 0.3 percent in November, following a 0.6 percent gain in October. Manufacturing IP also rose 0.3 percent in November,

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



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

	Nov '04	Oct '04	Sep '04	Aug '04	Jul '04	Jun '04	Nov '03
<b>CFNAI</b>							
Current	+0.12	+0.49	-0.23	+0.17	+0.60	-0.08	+0.85
Previous	N/A	+0.52	-0.04	+0.17	+0.59	-0.08	+0.82
<b>CFNAI-MA3</b>							
Current	+0.13	+0.14	+0.18	+0.23	+0.39	+0.33	+0.46
Previous	N/A	+0.22	+0.24	+0.23	+0.39	+0.33	+0.46

Current and Previous values reflect index values as of the December 21, 2004, release and November 23, 2004, release, respectively. N/A indicates not applicable.

after advancing 0.5 percent the previous month. Offsetting slower IP growth, the Institute for Supply Management's Purchasing Managers Index for manufacturing rose in November to 57.8.

The consumption and housing-related data category also made a smaller positive contribution to the index last month, +0.05 versus +0.10 in October. Notably, housing starts dropped 13.1 percent last month, but from very high levels in October. Moreover, housing starts and residential building permits remained well above historical norms in November; thus both continued to make positive contributions to the monthly CFNAI. For the second month in a row, the sales, inventories, and orders category contributed +0.03 to the CFNAI.

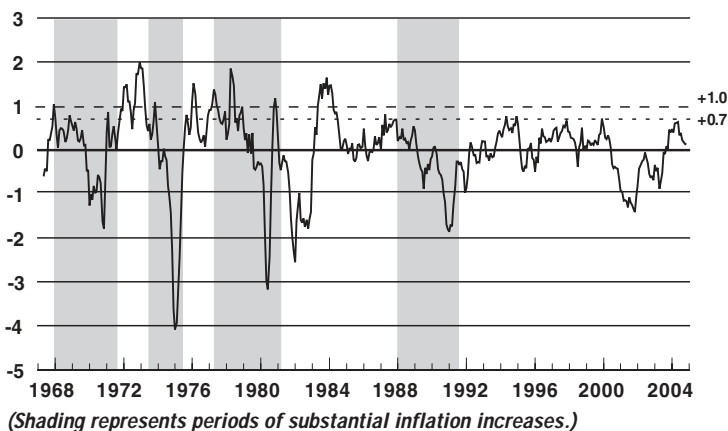
Forty-two of the 85 individual indicators made positive contributions to the index in November, while an equal number made negative contributions. Twenty-seven of the indicators improved from October to November, although nine of these made below-average contributions to the monthly index. The CFNAI was constructed using data available as of December 17, 2004. At that time, November data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

October's CFNAI was revised down from its initial estimate of +0.52 to +0.49. Revisions to the monthly 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. The downward revision to October's CFNAI was due to revisions in previously published data.

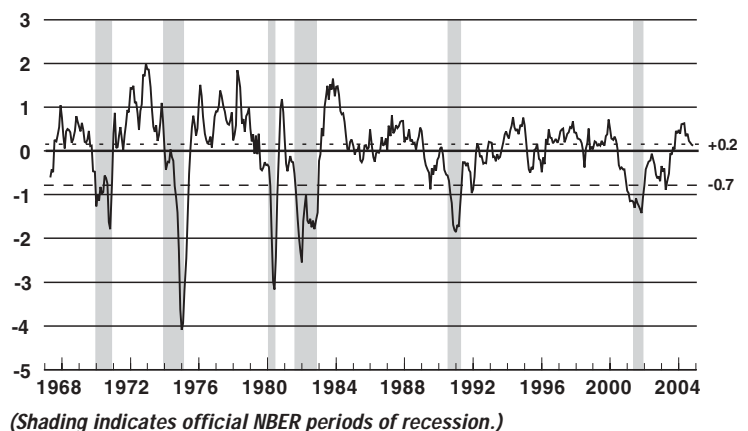
### Interpreting the CFNAI-MA3

If CFNAI-MA3 > +1.00 more than two years into an economic expansion...	Substantial likelihood that a period of sustained accelerating inflation has begun.
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 > +0.20 following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.

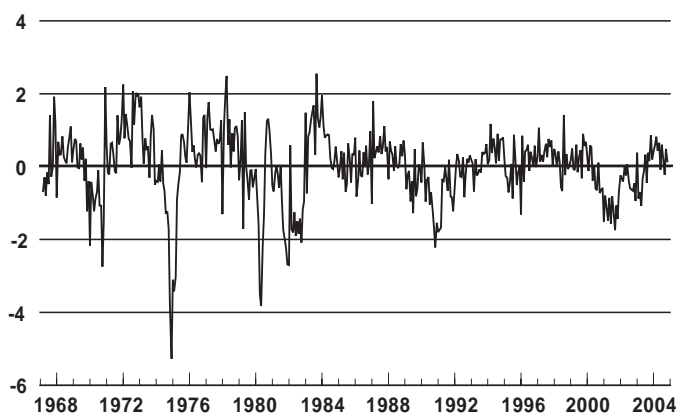
### CFNAI-MA3 and Inflation Cycles



### CFNAI-MA3 and Business Cycles



### CFNAI, Monthly Index



### 2004–2005 CFNAI Release Dates

Date of Release	Monthly Data for:
January 26, 2005	December 2004
February 24, 2005	January 2005
March 23, 2005	February 2005
April 21, 2005	March 2005
May 19, 2005	April 2005
June 22, 2005	May 2005
July 21, 2005	June 2005
August 18, 2005	July 2005
September 22, 2005	August 2005
October 26, 2005	September 2005
November 22, 2005	October 2005
December 22, 2005	November 2005

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