

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
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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 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:  
March 24, 2004  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

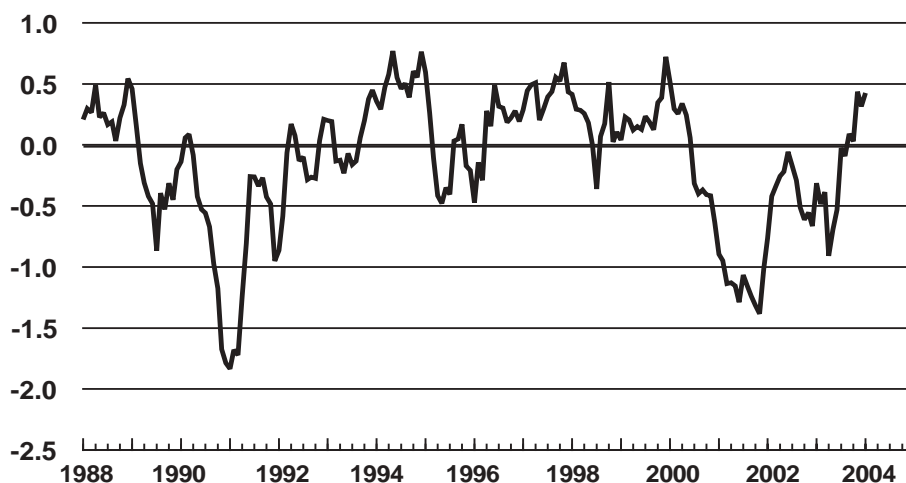
## CFNAI indicates economic growth strengthened in January

The Chicago Fed National Activity index was +0.49 in January, a marked increase from the December reading of +0.05. January represented the fifth straight month in which the index was positive. Each of the four broad categories of indicators that comprise the index made a positive contribution in January. The three-month moving average, CFNAI-MA3, also rose during the month, to +0.42 from +0.31 in December. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.42 suggests that growth in national economic activity was above its historical trend in January. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Most of the increase in January's CFNAI can be attributed to a larger contribution (+0.31) from production-related measures. Industrial production advanced 0.8 percent in January after being unchanged in December. Manufacturing output, which accounts for the bulk of industrial production, rose 0.3 percent in January, following a 0.1 percent increase in December. In addition, the Institute for Supply Management's Purchasing Managers' Index (manufacturing) edged up to 63.6 in January from 63.4 the previous month.

The employment-related category made a positive contribution (+0.04) to the monthly index for just the third time in the last 45 months. Nonfarm payroll employment rose by 112,000 in January, after increasing an upward-revised 16,000 in December. January's increase in jobs was the largest monthly gain since December 2000. The pickup in job creation during the month resulted mostly from higher jobs growth in construction and in some service-producing

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



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

	Jan '04	Dec '03	Nov '03	Oct '03	Sep '03	Aug '03	Jan '03
CFNAI							
Current	+0.49	+0.05	+0.74	+0.16	+0.41	-0.48	+0.38
Previous	N/A	+0.13	+0.68	+0.25	+0.44	-0.43	+0.46
CFNAI-MA3							
Current	+0.42	+0.31	+0.43	+0.03	+0.09	-0.09	-0.31
Previous	N/A	+0.35	+0.46	+0.09	+0.12	-0.08	-0.27

Current and Previous values reflect index values as of the February 25, 2004, release and January 29, 2004, release, respectively. N/A indicates not applicable.

industries, particularly retail trade. Manufacturing payrolls contracted in January for the forty-second month in a row, though the loss was smaller than in December. The unemployment rate decreased to 5.6 percent in January from 5.7 percent the previous month. The consumption and housing category made a small positive contribution (+0.06) to January's CFNAI. Housing starts and building permits fell in January, but still made a positive contribution because their levels remained above historical norms. Finally, the sales, inventories, and orders category added +0.07 to the monthly index.

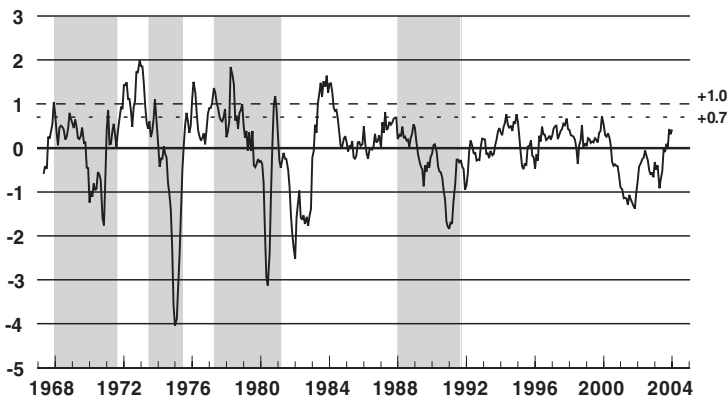
Overall, 50 of the 85 individual indicators made positive contributions to the index in January. Fifty-four of the indicators improved from December to January, though 18 of these made negative contributions to the index. The January index was constructed using data available as of February 23, 2004. At that time, January data for 52 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

The estimate of December's CFNAI was revised down to +0.05 from its initial estimate of +0.13. 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. For December, both factors contributed about equally to the downward revision to the CFNAI.

**Interpreting the CFNAI-MA3**

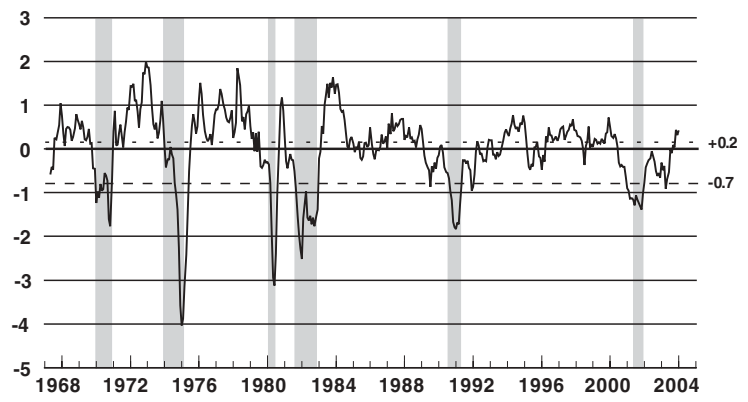
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 > +0.20 following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...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



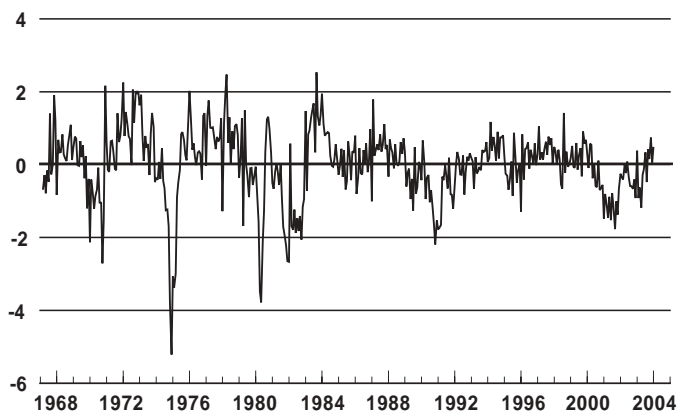
(Shading represents periods of substantial inflation increases.)

**CFNAI-MA3 and Business Cycles**



(Shading indicates official NBER periods of recession.)

**CFNAI, Monthly Index**



**2004 CFNAI Release Dates**

Date of Release	Monthly Data for:
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>.