

News Release

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
September 23, 2004

Contact:
Michael Munley
Media Relations
312-322-6401

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:
October 21, 2004
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

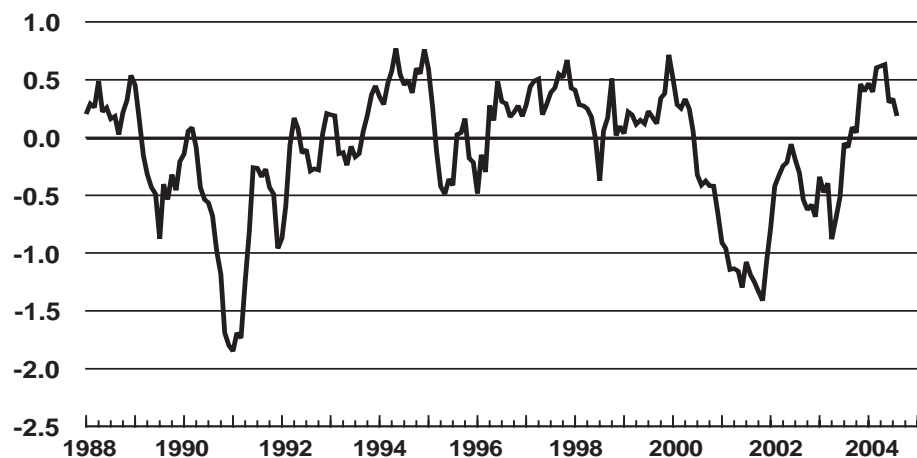
CFNAI points to above-trend economic growth in August

The Chicago Fed National Activity Index was +0.19 in August, down sharply from an upward-revised +0.53 in July. The drop in the monthly index was due to smaller positive contributions from production-related data and, to a lesser extent, housing and consumption-related data. The employment-related category made a small negative contribution to the CFNAI in August for the third month in a row. The three-month moving average, CFNAI-MA3, fell to +0.19 in August from an upward-revised +0.33 in July. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.19 suggests that growth in national economic activity was above its historical trend in August for the twelfth straight month. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Most of the decrease in August's CFNAI was due to a much smaller positive contribution from production-related indicators, +0.05 that month compared to +0.36 in July. Industrial production (IP) did increase in August, but the 0.1 percent gain was smaller than that in July. Growth in manufacturing IP (which accounts for over 80 percent of total IP) also slowed, to 0.5 percent in August from 0.9 percent in July. Moreover, the Institute for Supply Management's Purchasing Managers Index for manufacturing fell to 59.0 in August from 62.0 in July, suggesting a slower, though still solid, pace of expansion in manufacturing.

The positive contribution from the consumption and housing-related data category also shrank in August, to +0.09 from +0.15 in July. Notably, housing starts edged up in August

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



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

	Aug '04	Jul '04	Jun '04	May '04	Apr '04	Mar '04	Aug '03
CFNAI							
Current	+0.19	+0.53	-0.16	+0.63	+0.43	+0.83	-0.44
Previous	N/A	+0.35	-0.19	+0.60	+0.42	+0.83	-0.44
CFNAI-MA3							
Current	+0.19	+0.33	+0.30	+0.63	+0.62	+0.61	-0.08
Previous	N/A	+0.25	+0.27	+0.61	+0.62	+0.61	-0.08

Current and Previous values reflect index values as of the September 23, 2004, release and August 19, 2004, release, respectively. N/A indicates not applicable.

from already high levels, but building permits fell 5.5 percent. Still, permits remained strong and continued to make a positive contribution to the monthly CFNAI. The sales, inventories, and orders category contributed +0.05 to the CFNAI in both August and July.

Once again, the employment-related category of indicators made a slight negative contribution to the CFNAI, -0.01 in August compared to -0.03 in July. The 144,000 increase in nonfarm payroll employment in August was larger than in July, but still below the historical average. A further decline in the unemployment rate and an increase in manufacturing payrolls in August limited the negative impact of the employment-related data category.

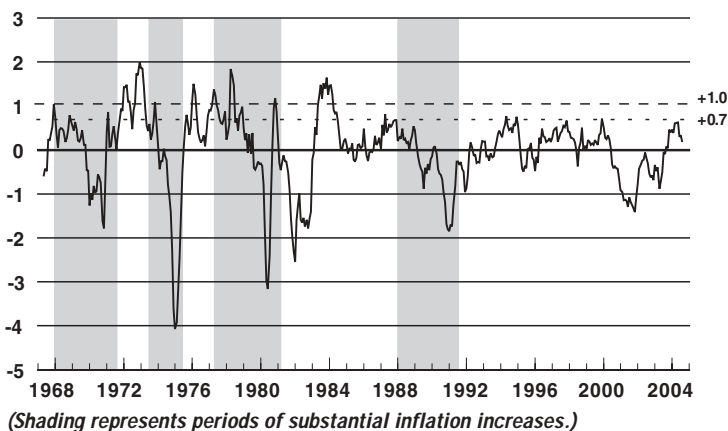
Overall, 42 of the 85 individual indicators made positive contributions to the index in August. Forty of the indicators improved from July to August, although 16 of these made below-average contributions to the monthly index. The CFNAI was constructed using data available as of September 21, 2004. At that time, August data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

July's CFNAI was revised up from its initial estimate of +0.35 to +0.53. 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. Most of the upward revision to July's CFNAI was due to revisions in previously published data.

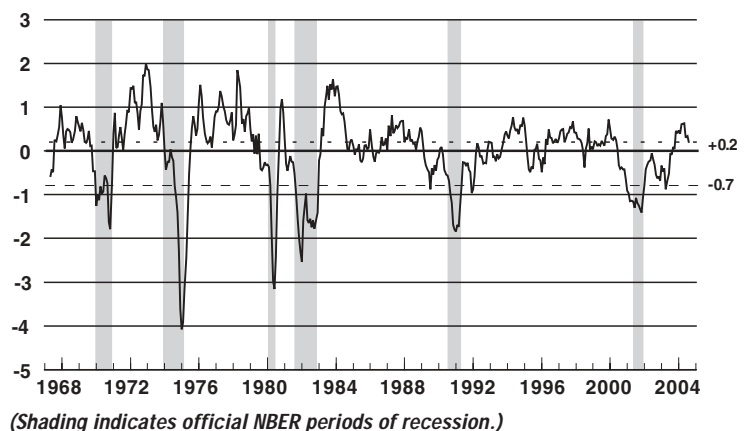
Interpreting the CFNAI-MA3

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.

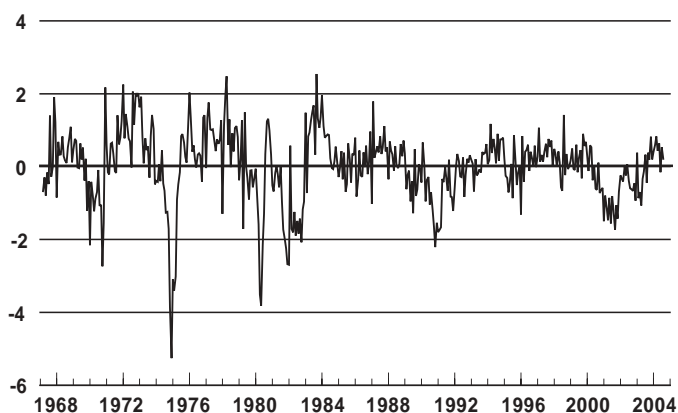
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2004 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.