

News Release

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
October 21, 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:
November 23, 2004
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

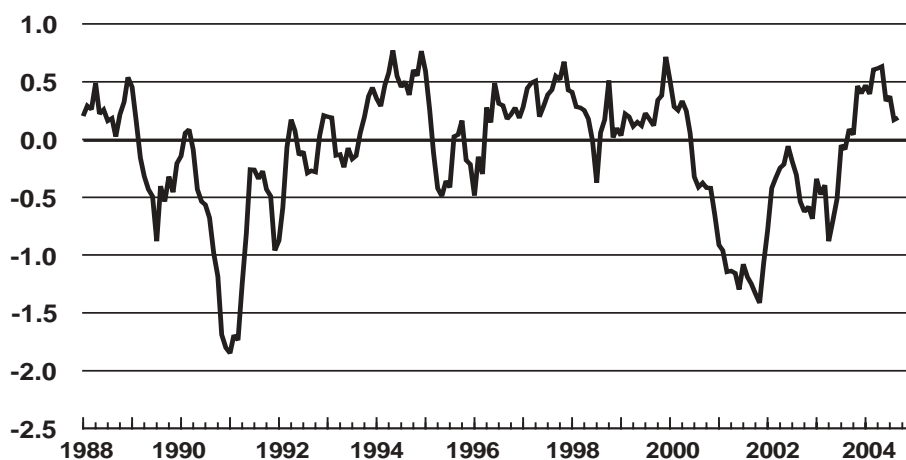
CFNAI points to continued economic expansion in September

The Chicago Fed National Activity Index was -0.01 in September, off slightly from a downward-revised $+0.03$ in August. The small decline in the monthly index was primarily due to a slightly larger negative contribution from the employment-related indicators in September than in August. The three-month moving average, CFNAI-MA3, edged up to $+0.19$ in September from $+0.17$ in August. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of $+0.19$ in September suggests that growth in national economic activity was above its historical trend for the thirteenth straight month. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Most of the decrease in September's CFNAI was the result of a slightly larger negative contribution from employment-related indicators, -0.09 in September compared to -0.02 the previous month. Nonfarm payroll employment increased by just 96,000 in September, below its historical average, and manufacturing employment fell by 18,000. Moreover, average weekly hours in manufacturing fell slightly and the unemployment rate was unchanged after dropping the previous month.

Despite the restraining effect of the recent hurricanes, the production-related category made a smaller negative contribution in September (-0.05) than in August (-0.09). Total industrial production (IP) increased 0.1 percent in September after edging down 0.1 percent the previous month. However, manufacturing IP fell 0.3 percent in September following a 0.2 percent rise in August. In addition, the Institute for Supply Management's

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 '04	Aug '04	Jul '04	Jun '04	May '04	Apr '04	Sep '03
CFNAI							
Current	-0.01	+0.03	+0.55	-0.08	+0.65	+0.42	+0.38
Previous	N/A	+0.19	+0.53	-0.16	+0.63	+0.43	+0.38
CFNAI-MA3							
Current	+0.19	+0.17	+0.37	+0.33	+0.63	+0.61	+0.09
Previous	N/A	+0.19	+0.33	+0.30	+0.63	+0.62	+0.09

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

Purchasing Managers Index for manufacturing inched down from 59.0 in August to 58.5 in September suggesting a still solid, but slightly softer, expansion in manufacturing.

The contribution from the consumption and housing-related data category decreased slightly in September, to +0.07 from +0.08 in August. Notably, housing starts dropped 6.0 percent last month. However, the drop was from very high levels in August, and both housing starts and residential building permits (which were up in September) remained well above historic norms in September. As a result, both continued to make positive contributions to the monthly CFNAI. The sales, inventories, and orders category accounted for +0.05 of the CFNAI in September after contributing +0.07 the previous month.

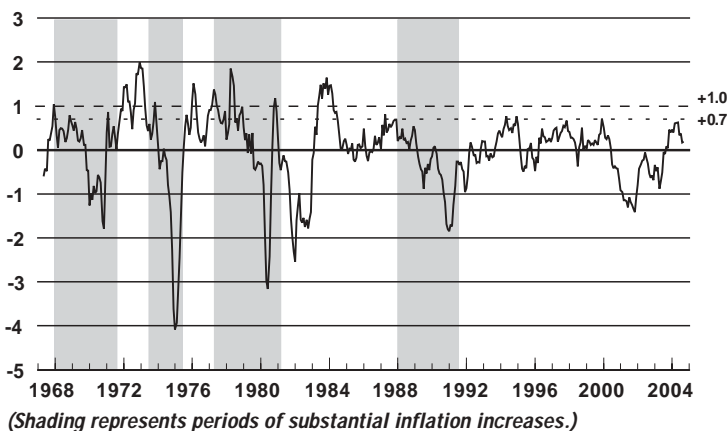
Overall, 44 of the 85 individual indicators made positive contributions to the index in September. Thirty-seven of the indicators improved from August to September, although 11 of these made negative contributions to the monthly index. The CFNAI was constructed using data available as of October 19, 2004. At that time, September data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

August's CFNAI was revised down from its initial estimate of +0.19 to +0.03. 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 downward revision to August's CFNAI was due to revisions in previously published data.

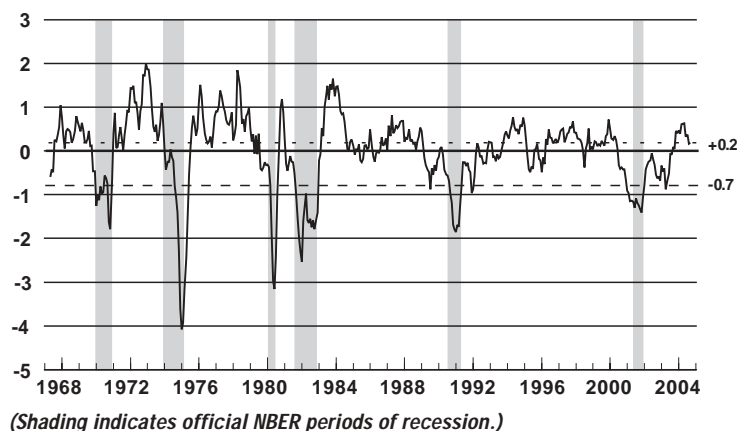
Interpreting the CFNAI-MA3

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.

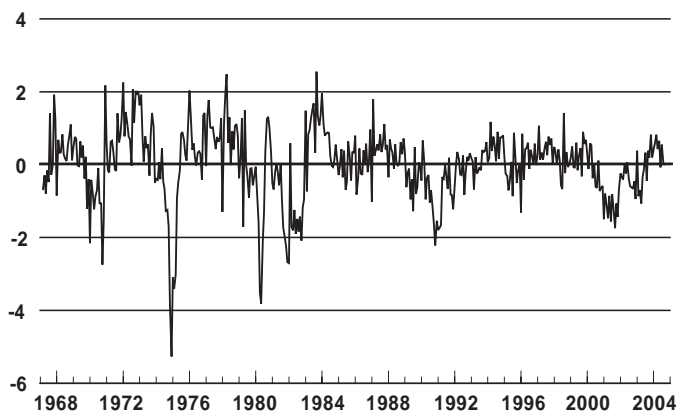
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2004–2005 CFNAI Release Dates

Date of Release	Monthly Data for:
November 23, 2004	October 2004
December 21, 2004	November 2004
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>.