

News Release

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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:
February 24, 2005
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

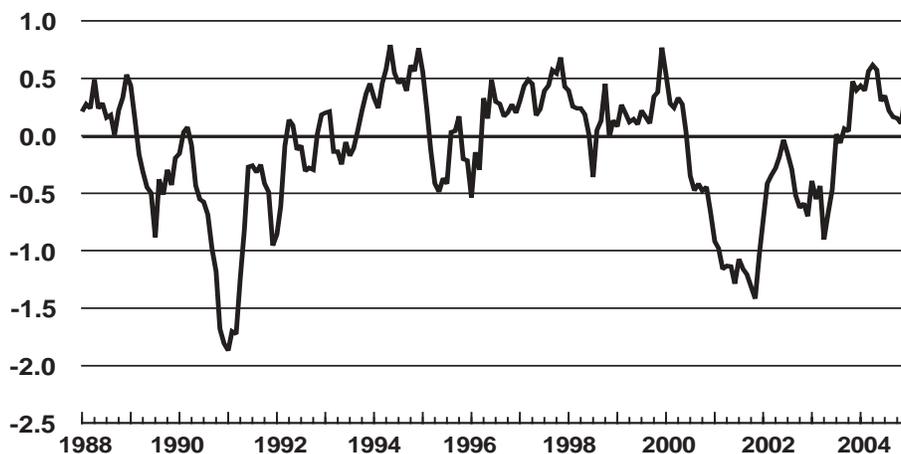
CFNAI points to above-trend economic growth in December

The Chicago Fed National Activity Index was +0.39 in December, up markedly from +0.05 in November. Three of the four broad categories of indicators that comprise the index made positive contributions in December, while the employment-related category made a negative contribution. The three-month moving average, CFNAI-MA3, increased to +0.33 in December from +0.11 the previous month. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.33 suggests that growth in national economic activity was above its historical trend for the sixteenth straight month. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Most of the increase in the CFNAI was due to a swing in the contribution of production-related indicators, from -0.04 in November to +0.31 in December. Manufacturing output rose 0.7 percent in December (following a 0.1 percent increase in November), which helped push total industrial production up sharply. In addition, total capacity utilization in December increased to 79.2 percent, its highest level since just prior to the 2001 recession.

The consumption and housing-related data category also made a significant contribution to the increase in the December CFNAI, +0.11 versus +0.05 in November. Notably, housing starts increased 10.9 percent last month. Moreover, housing starts and residential building permits remained well above historical norms in December and, thus, continued to make positive contributions to the monthly CFNAI. For the second consecutive month, the sales,

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



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

	Dec '04	Nov '04	Oct '04	Sep '04	Aug '04	Jul '04	Dec '03
CFNAI							
Current	+0.39	+0.05	+0.54	-0.27	+0.19	+0.57	+0.20
Previous	N/A	+0.12	+0.49	-0.23	+0.17	+0.60	+0.19
CFNAI-MA3							
Current	+0.33	+0.11	+0.15	+0.16	+0.22	+0.35	+0.40
Previous	N/A	+0.13	+0.14	+0.18	+0.23	+0.39	+0.40

Current and Previous values reflect index values as of the January 26, 2005, release and December 21, 2004, release, respectively. N/A indicates not applicable.

inventories, and orders category also made a positive contribution (+0.04) to the CFNAI.

In December, the employment-related category of indicators made a -0.07 contribution to the monthly CFNAI, its third negative contribution in the past four months. December's nonfarm payroll employment gain of 157,000 surpassed the November increase of 137,000, but both were below the historical average, resulting in negative contributions to the monthly CFNAI. Partially offsetting tepid job growth, the employment component of the Institute for Supply Management's Purchasing Managers Index for manufacturing remained above 50 in December, a mark signaling expansion in manufacturing employment.

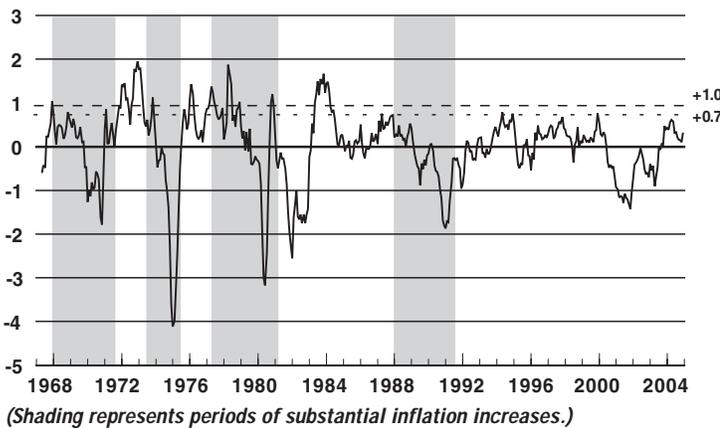
Forty-eight of the 85 individual indicators made positive contributions to the index in December, while 36 made negative contributions. Fifty of the indicators improved from November to December, although 14 of these made below-average contributions to the monthly index. The CFNAI was constructed using data available as of January 20, 2005. At that time, December data for 52 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

November's CFNAI was revised down from its initial estimate of +0.11 to +0.05. 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 November's CFNAI was primarily due to revisions in previously published data.

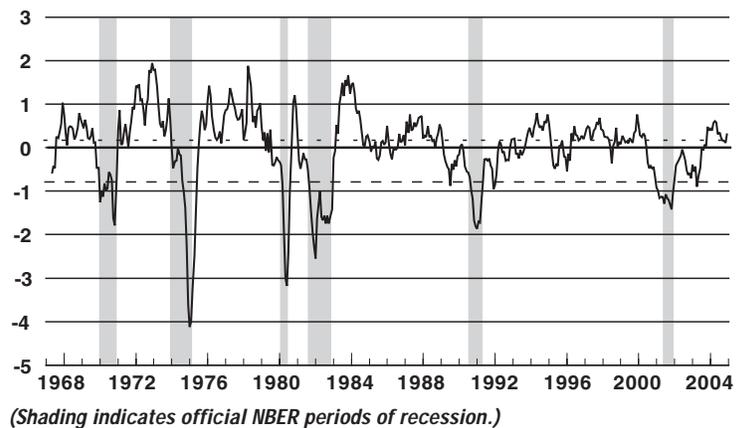
Interpreting the CFNAI-MA3

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.

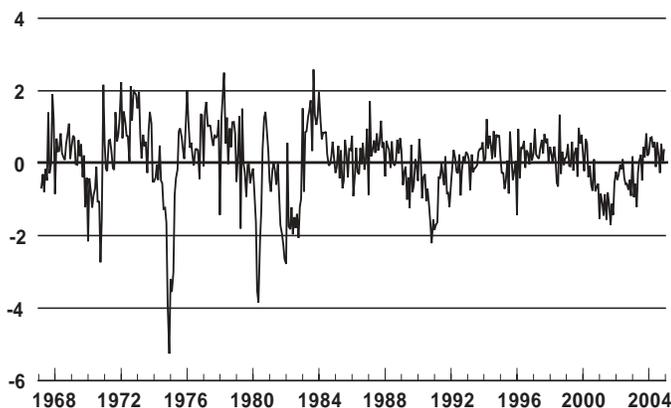
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2005 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.