

News Release

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
January 29, 2004

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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 25, 2004
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

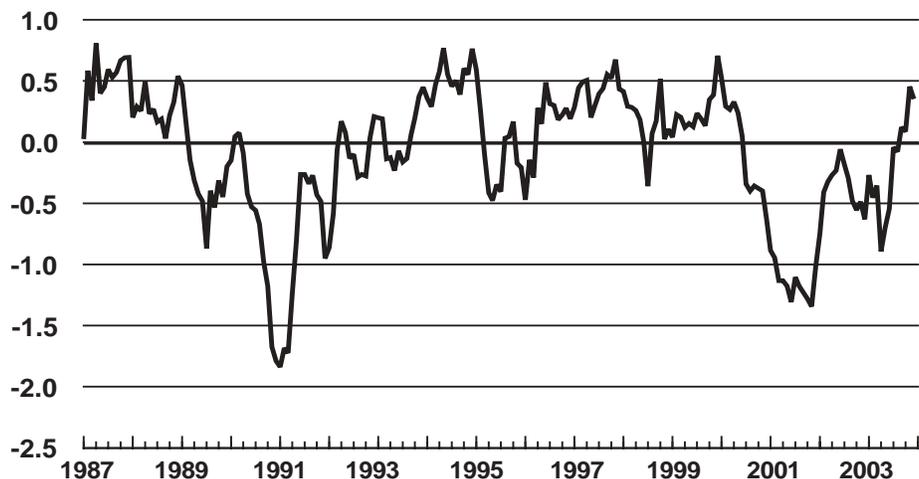
CFNAI indicates above-trend economic growth again in December

The Chicago Fed National Activity Index was +0.13 in December, the fourth consecutive positive monthly reading. November's CFNAI was revised up from +0.55 to +0.68, the highest value since October 1999. Three of the four broad categories of indicators that comprise the index (see sidebar) made positive contributions in December; only the employment-related category made a negative contribution. The three-month moving average, CFNAI-MA3, fell moderately in December, to +0.35, from an upward-revised November reading of +0.46. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.35 suggests that growth in national economic activity was above its historical trend in December. With regard to inflation, CFNAI-MA3 values above zero signal increased inflationary pressures over the coming year.

Most of the December decrease in the CFNAI can be attributed to a smaller contribution from output-related measures that month (+0.05) relative to November (+0.54). Industrial production (IP) growth slowed from 1.0 percent in November to 0.1 percent in December; manufacturing IP showed a similar-sized deceleration. The slowing in IP growth was largely offset by strong results from the Institute for Supply Management's survey of manufacturers: That survey's Purchasing Managers' Index rose from 61.3 in November to 63.4 in December, the highest reading in 20 years.

The employment-related category, which has not made a positive contribution to the monthly index since January 2003, contributed -0.13 to the CFNAI in December. Nonfarm payroll employment was up by just 1,000 in December, a much smaller gain than November'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

	Dec '03	Nov '03	Oct '03	Sep '03	Aug '03	Jul '03	Dec '02
CFNAI							
Current	+0.13	+0.68	+0.25	+0.44	-0.43	+0.35	-0.63
Previous	N/A	+0.55	+0.19	+0.25	-0.42	+0.39	-0.55
CFNAI-MA3							
Current	+0.35	+0.46	+0.09	+0.12	-0.08	-0.04	-0.92
Previous	N/A	+0.33	+0.01	+0.08	-0.07	-0.06	-0.69

Current and Previous values reflect index values as of the January 29, 2004, release and December 18, 2003, release, respectively. N/A indicates not applicable.

43,000, and well below its historical trend. The sharp slowing in employment growth last month was mostly due to less job creation in service-producing industries. Manufacturing payrolls fell in December for the 41st month in a row, although the decline in jobs was the same as in November. Partially offsetting weak job growth, the nation's unemployment rate fell from 5.9 percent in November to 5.7 percent in December. The consumption and housing category contributed +0.10 to December's CFNAI. Notably, housing starts rose to a seasonally adjusted annual rate of 2.088 million units last month, the highest reading in nearly 20 years. Finally, the sales, inventories, and orders category added +0.11 to the monthly index.

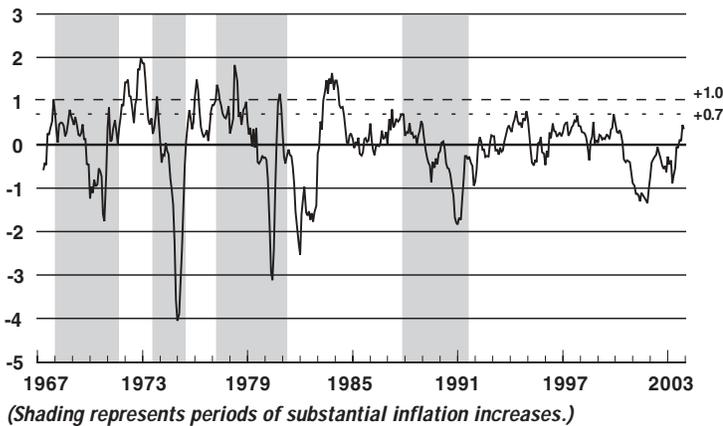
Overall, 44 of the 85 individual indicators made positive contributions to the index in December. Relative to November, 36 individual series improved last month, although eight of these made negative contributions to the index. The December index was estimated using data available as of January 27, 2004. At that time, December data for 52 of the 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The estimate of November's CFNAI was revised up to +0.68 from its initial estimate of +0.55. 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 November, the upward adjustment to the CFNAI was due primarily to differences between estimates and subsequently published data.

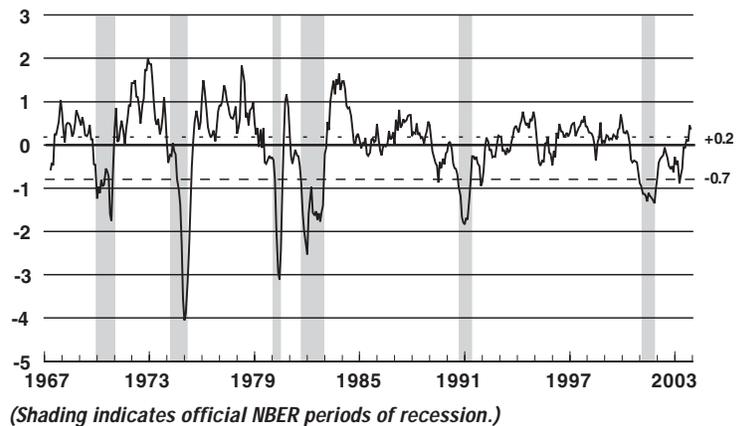
Interpreting the CFNAI-MA3

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.

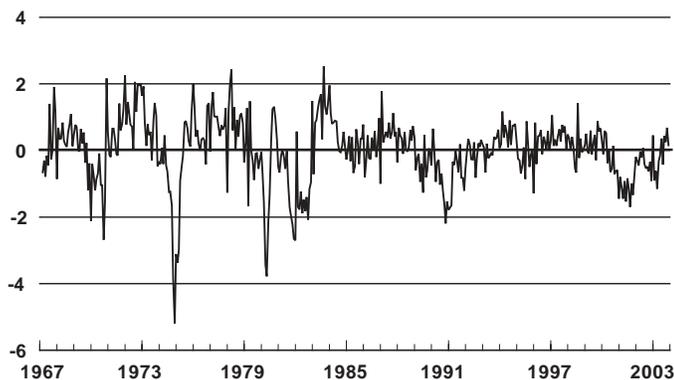
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2004 CFNAI Release Dates

Date of Release	Monthly Data for:
February 25, 2004	January 2004
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>.