

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 are included in 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 26, 2005
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

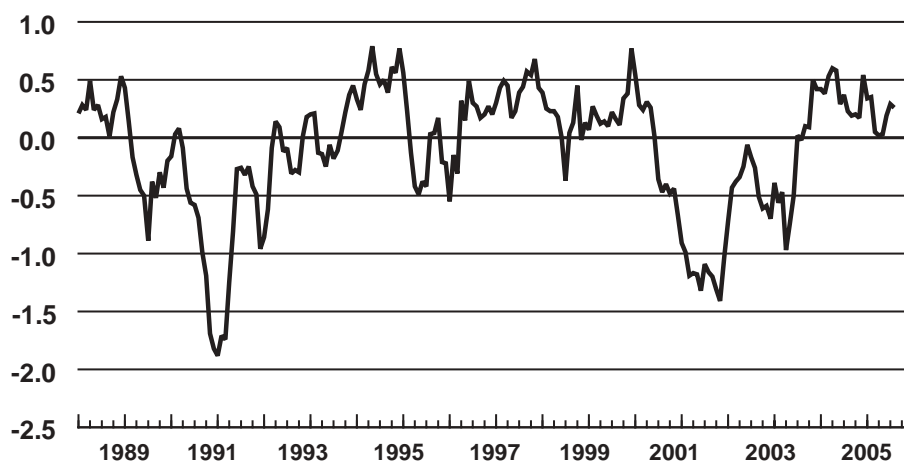
CFNAI indicates economic growth above trend in August

The Chicago Fed National Activity Index was +0.10 in August, down from +0.28 in July. Three of the four broad categories of indicators that make up the index—employment, consumption and housing, and sales, orders, and inventories—made positive contributions (see sidebar). The three-month moving average, CFNAI-MA3, was +0.26 in August. A CFNAI-MA3 reading above zero is associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.26 in August suggests that growth in national economic activity was above its historical trend. With regard to inflation, a CFNAI-MA3 value above zero indicates the potential for inflationary pressures over the coming year.

The decrease in the CFNAI largely reflected a smaller contribution from employment-related indicators: +0.12 in July as compared with +0.02 in August. Notably, the nonfarm payroll employment gain of 169,000 in August was lower than the gain of 242,000 in July. In contrast, the unemployment rate fell from 5.0 percent in July to 4.9 percent in August.

The contribution from the consumption and housing indicators fell from +0.15 in July to +0.09 in August. Housing starts decreased 1.3 percent in August after falling 1.5 percent in July, and residential building permits declined 2.2 percent after rising 1.8 percent in the previous month. Both measures remained above historical norms and, as a result, continued to make positive contributions to the CFNAI. The sales, orders, and inventories category also made a positive contribution of +0.01 to the August CFNAI.

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 '05	Jul '05	Jun '05	May '05	Apr '05	Mar '05	Aug '04
CFNAI							
Current	+0.10	+0.28	+0.39	+0.19	-0.01	-0.09	+0.22
Previous	N/A	+0.16	+0.40	+0.13	+0.05	-0.09	+0.25
CFNAI-MA3							
Current	+0.26	+0.29	+0.19	+0.03	+0.02	+0.05	+0.23
Previous	N/A	+0.23	+0.19	+0.03	+0.04	+0.05	+0.23

Current and Previous values reflect index values as of the September 22, 2005, release and August 18, 2005, release, respectively. N/A indicates not applicable.

Production-related indicators continued to make a small negative contribution to the CFNAI, rising from -0.02 in July to -0.01 in August. Total industrial production (IP) rose 0.1 percent in both August and July. In manufacturing, production rose 0.3 percent in August, and capacity utilization edged up to 78.4 percent.

The CFNAI will reflect the effects of Hurricane Katrina to the extent that the storm influenced the available source data. Disruptions related to the hurricane were estimated to have reduced the rate of change in IP by 0.3 percentage point in August. No estimates of the storm's effects are available for other source data.

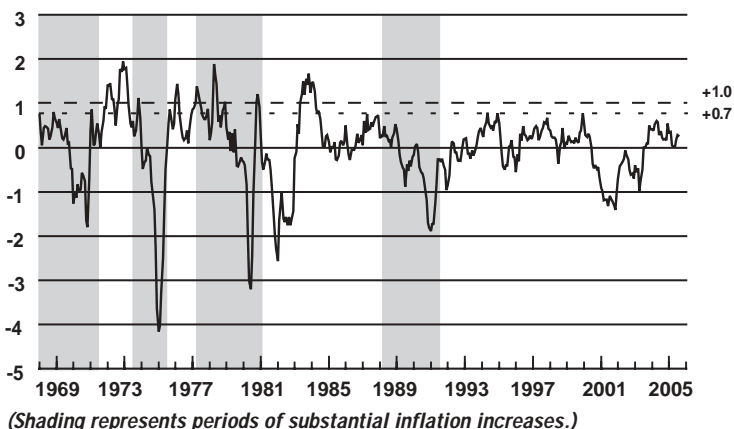
Forty-three of the 85 individual indicators made positive contributions to the index in August, while 41 made negative contributions and one was neutral. Thirty-seven indicators improved from July to August, although 11 of these made below-average contributions to the index. The CFNAI was constructed using data available as of September 20, 2005. 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 +0.16 to +0.28. 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 upward revision to July's CFNAI was primarily due to differences between estimates of previously unavailable data and subsequently published data.

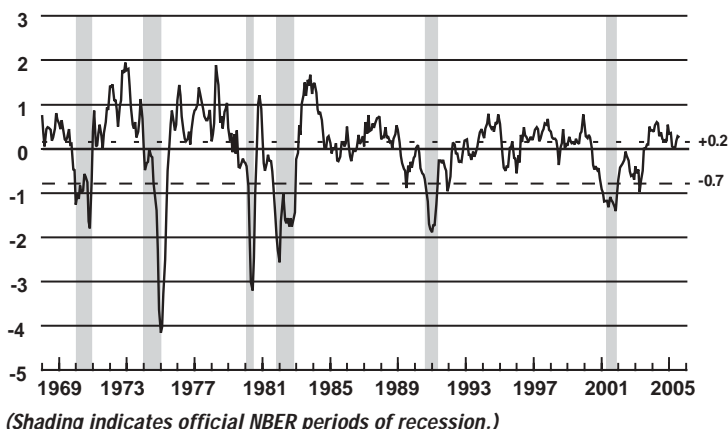
Interpreting the CFNAI-MA3

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.

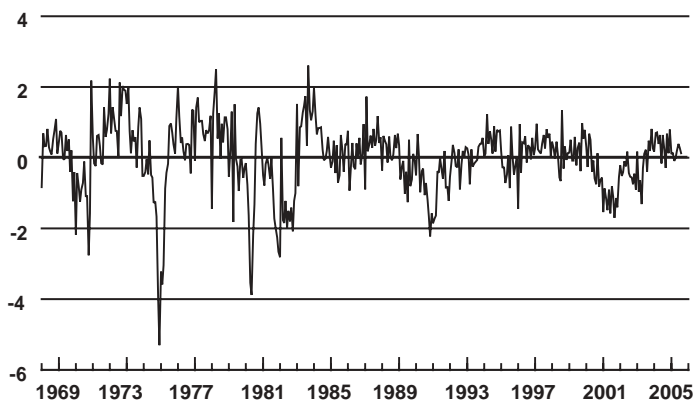
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2005 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.