

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:
November 21, 2006
10:00 am Eastern Time
9:00 am Central Time

**FEDERAL RESERVE BANK
OF CHICAGO**

Chicago Fed National Activity Index

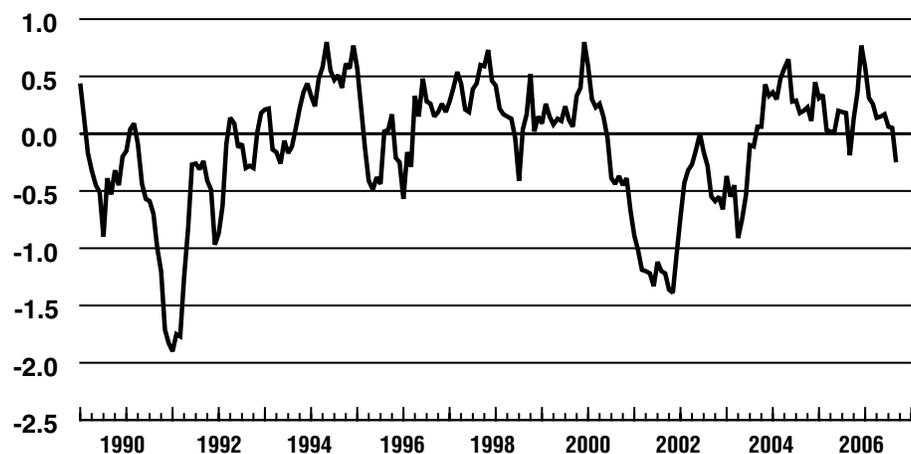
CFNAI indicates economic growth below trend in September

The Chicago Fed National Activity Index was -0.51 in September, down from -0.06 in August. Three of the four broad categories of indicators in the index made negative contributions (see sidebar). The three-month moving average, CFNAI-MA3, declined from $+0.05$ in August to -0.25 in September. A CFNAI-MA3 reading below zero is associated with below-trend economic growth; accordingly, the CFNAI-MA3 value of -0.25 for September suggests that growth in national economic activity was below its historical trend. With regard to inflation, a CFNAI-MA3 value below zero indicates little inflationary pressure over the coming year.

Production-related indicators made a negative contribution of -0.39 to the CFNAI in September after making a negative contribution of -0.05 in August. Total industrial production fell 0.6 percent in September after remaining unchanged in the previous month. Manufacturing capacity utilization decreased slightly from 81.2 percent in August to 80.8 percent in September.

Employment-related indicators made a negative contribution of -0.10 to the CFNAI in September after contributing -0.03 to the index in the previous month. Nonfarm payroll employment increased 51,000 in September, less than the 188,000 gain in August. The unemployment rate edged down from 4.7 percent in August to 4.6 percent in September. The sales, orders, and

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 '06	Aug '06	Jul '06	Jun '06	May '06	Apr '06	Sep '05
CFNAI							
Current	-0.51	-0.06	-0.17	+0.39	-0.03	+0.13	-0.74
Previous	N/A	-0.18	-0.07	+0.38	-0.05	+0.15	-0.77
CFNAI-MA3							
Current	-0.25	+0.05	+0.06	+0.17	+0.15	+0.14	-0.19
Previous	N/A	+0.05	+0.09	+0.16	+0.15	+0.15	-0.19

Current and Previous values reflect index values as of the October 25, 2006, release and September 21, 2006, release, respectively. N/A indicates not applicable.

inventories category made a small negative contribution of -0.03 to the September CFNAI.

Consumption and housing indicators made a small positive contribution of $+0.01$ to the September CFNAI. Housing starts rose 5.9 percent during the month, but residential building permits fell 6.3 percent. However, both measures remained above historical norms and continued to make positive contributions to the CFNAI.

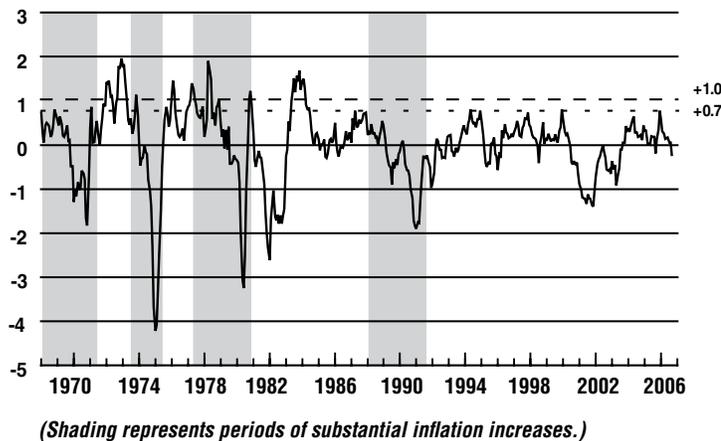
Twenty-four of the 85 individual indicators made positive contributions to the index in September, while 60 made negative contributions and one was neutral. Thirty indicators improved from August to September, while 54 indicators deteriorated. Of the improved indicators, 12 made negative contributions to the CFNAI. The CFNAI was constructed using data available as of October 23, 2006. At that time, September data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

The August CFNAI was revised up to -0.06 from the initial estimate of -0.18 . 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 the August CFNAI was primarily due to revisions in previously published data.

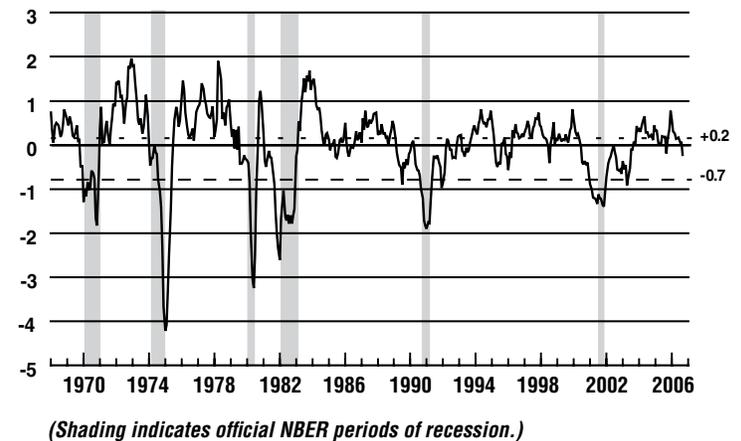
Interpreting the CFNAI-MA3

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.

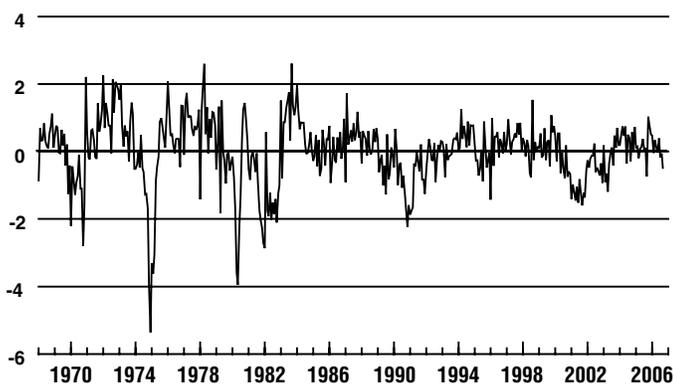
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2006 CFNAI Release Dates

Date of Release	Monthly Data for:
November 21, 2006	October 2006
December 21, 2006	November 2006

CFNAI historical data and background information are available on the Federal Reserve Bank of Chicago's website at <http://www.chicagofed.org>.