

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
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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:  
February 23, 2006  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

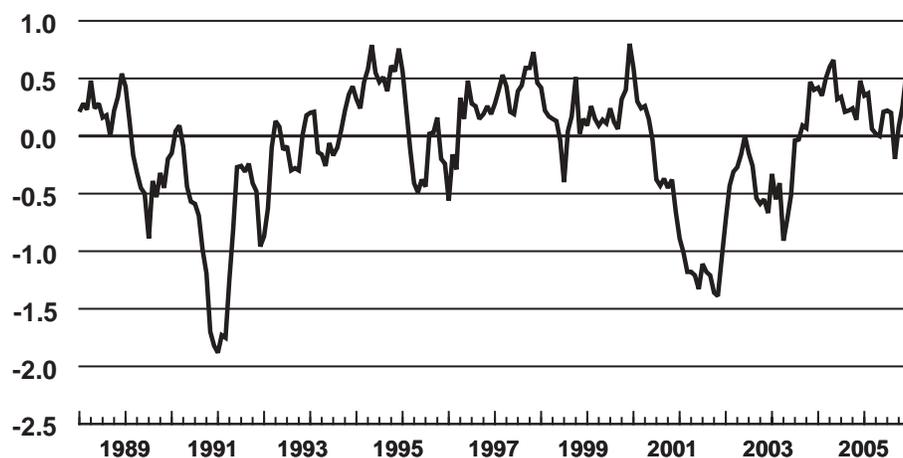
## CFNAI indicates economic growth above trend in December

The Chicago Fed National Activity Index was +0.08 in December, down from +0.59 in November. Two of the four broad categories of indicators that make up the index made small positive contributions, and two made small negative ones (see sidebar). The three-month moving average, CFNAI-MA3, was +0.55 in December, up from +0.26 in November. This increase largely reflects the fact that the hurricane-related decline in September's CFNAI is no longer entering the three-month moving average. A CFNAI-MA3 reading above zero is associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.55 in December 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.

Production-related indicators made a small positive contribution to the CFNAI in December. However, last month's contribution of +0.08 was less than November's contribution of +0.24. Total industrial production rose 0.6 percent in December after rising 0.8 percent in the previous month; however, manufacturing production increased only 0.2 percent, which was below its historical average. Total capacity utilization rose from 80.3 percent to 80.7 percent in December.

Employment-related indicators made a contribution of -0.04 to the CFNAI last month after contributing +0.10 to the index in November. Nonfarm payroll employment increased 108,000 in December, which was below its long-run average. The unemployment rate decreased from 5.0 percent in November to 4.9 percent in December.

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 '05	Nov '05	Oct '05	Sep '05	Aug '05	Jul '05	Dec '04
CFNAI							
Current	+0.08	+0.59	+0.98	-0.79	+0.06	+0.13	+0.72
Previous	N/A	+0.35	+1.02	-0.93	+0.08	+0.14	+0.72
CFNAI-MA3							
Current	+0.55	+0.26	+0.08	-0.20	+0.20	+0.22	+0.48
Previous	N/A	+0.14	+0.06	-0.24	+0.20	+0.23	+0.48

Current and Previous values reflect index values as of the January 25, 2006, release and December 22, 2005, release, respectively. N/A indicates not applicable.

The contribution from the consumption and housing indicators fell from +0.20 in November to +0.08 in December. Housing starts decreased 8.9 percent in December, and residential building permits fell 4.4 percent. Still, both measures remained above historical norms and, as a result, continued to make positive contributions to the CFNAI. The sales, orders, and inventories category made a contribution of -0.04 to the December CFNAI.

Thirty-eight of the 85 individual indicators made positive contributions to the index in December, while 46 made negative contributions and one was neutral. Twenty-seven indicators improved from November to December, although thirteen of these made below-average contributions to the index. The CFNAI was constructed using data available as of January 23, 2006. 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.

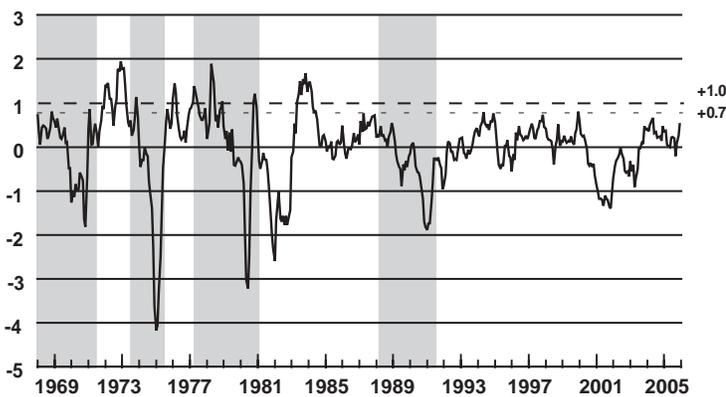
November's CFNAI was revised up from its initial estimate of +0.35 to +0.59. Revisions to the monthly index can be attributed

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 November's CFNAI was primarily due to differences between the estimates of previously unavailable data and subsequently published data.

**Interpreting the CFNAI-MA3**

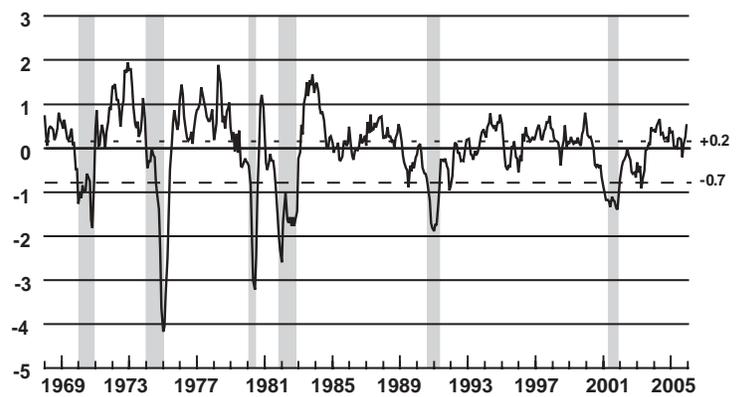
If CFNAI-MA3 > +1.00 more than two years into an economic expansion...	Substantial likelihood that a period of sustained accelerating inflation has begun.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...	Increasing likelihood that a period of sustained accelerating inflation has 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**



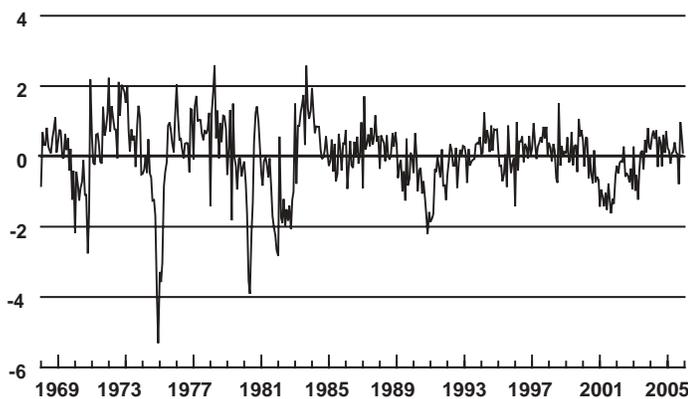
(Shading represents periods of substantial inflation increases.)

**CFNAI-MA3 and Business Cycles**



(Shading indicates official NBER periods of recession.)

**CFNAI, Monthly Index**



**2006 CFNAI Release Dates**

<b>Date of Release</b>	<b>Monthly Data for:</b>
February 23, 2006	January 2006
March 22, 2006	February 2006
April 20, 2006	March 2006
May 18, 2006	April 2006
June 22, 2006	May 2006
July 26, 2006	June 2006
August 23, 2006	July 2006
September 21, 2006	August 2006
October 25, 2006	September 2006
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>.