

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
August 19, 2004

Contact:  
James Pieper  
Coordinator, Media Relations  
312-322-2387

Federal Reserve Bank of Chicago  
230 South LaSalle Street  
Chicago, IL 60604

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:  
September 23, 2004  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

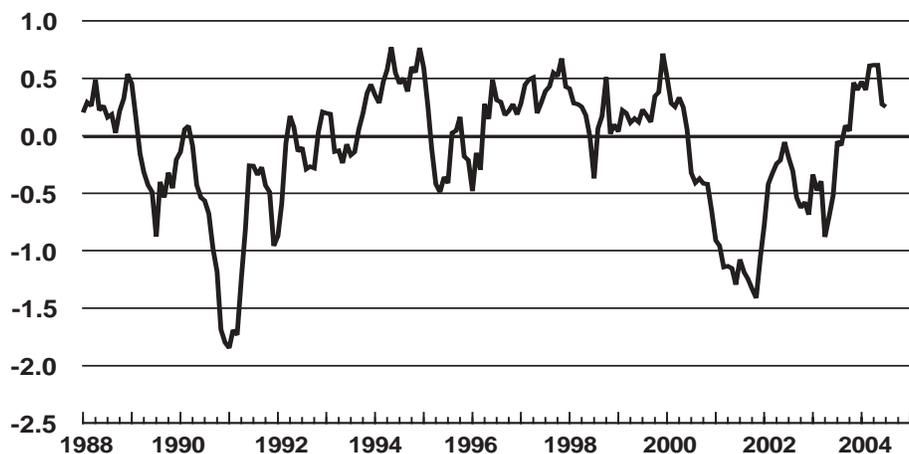
## CFNAI points to above-trend economic growth in July

The Chicago Fed National Activity index rose to +0.35 in July from a downward-revised reading of -0.19 the previous month. Of the four broad categories of indicators, only the employment-related category made a negative contribution to the CFNAI in July, and it was small. The three-month moving average, CFNAI-MA3, edged down to +0.25 in July from a downward-revised +0.27 in June. CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.25 in July suggests that growth in national economic activity was above its historical trend for the eleventh straight month. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Most of the increase in July's CFNAI resulted from a big swing in the contribution from production-related indicators, from -0.25 in June to +0.23 last month. Industrial production (IP) rose 0.4 percent in July after falling 0.5 percent in June. Manufacturing IP (which accounts for over 80 percent of total IP) jumped 0.6 percent in July, and capacity utilization at U.S. factories rose to 76.3 percent, the highest level since April 2001. A strong report on manufacturing from the Institute for Supply Management also added to the monthly index in July.

The contribution from the consumption and housing-related category increased from -0.04 in June to +0.12 in July. In particular, housing starts and building permits rose solidly from high levels in June. The sales, inventories, and orders category contributed +0.02 to the CFNAI in July.

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



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

	Jul '04	Jun '04	May '04	Apr '04	Mar '04	Feb '04	Jul '03
CFNAI							
Current	+0.35	-0.19	+0.60	+0.42	+0.83	+0.60	+0.33
Previous	N/A	0.00	+0.75	+0.47	+0.82	+0.63	+0.33
CFNAI-MA3							
Current	+0.25	+0.27	+0.61	+0.62	+0.61	+0.40	-0.05
Previous	N/A	+0.41	+0.68	+0.64	+0.60	+0.40	-0.04

Current and Previous values reflect index values as of the August 19, 2004, release and July 22, 2004, release, respectively. N/A indicates not applicable.

The employment-related category of indicators contributed  $-0.03$  to July's CFNAI, following a  $-0.04$  contribution in June. Nonfarm payroll employment rose by just 32,000 in July after increasing by 78,000 in June. The job gains in both months were well below the historical average, so their contributions to the monthly indexes were negative. A decline in the unemployment rate and a slight increase in the manufacturing workweek helped mitigate the negative impact of weak employment numbers in July.

Overall, 52 of the 85 individual indicators made positive contributions to the index in July, up sharply from 37 the previous month. Fifty of the indicators improved from June to July, although seven of these made below-average contributions to the monthly index. The CFNAI was constructed using data available as of August 17, 2004. At that time, July data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

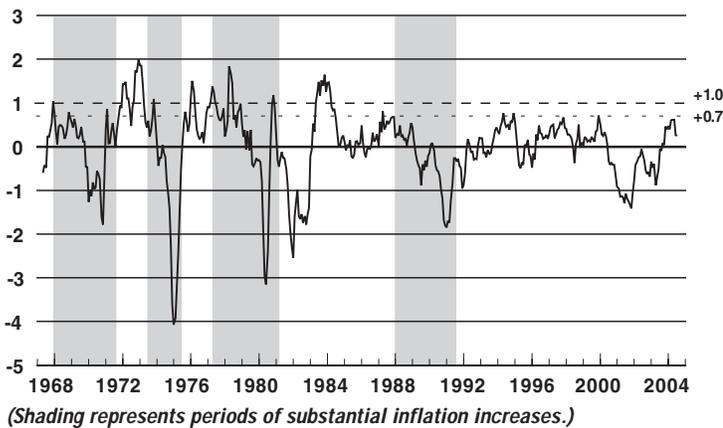
The estimate of June's CFNAI was revised down to  $-0.19$  from its initial estimate of 0.00. Revisions to the monthly index can be attributed to two main factors: revisions in previously published

data, and differences between the estimates of previously unavailable data and subsequently published data. Most of the downward revision to June's CFNAI was due to differences between the estimates of previously unavailable data and subsequently published data.

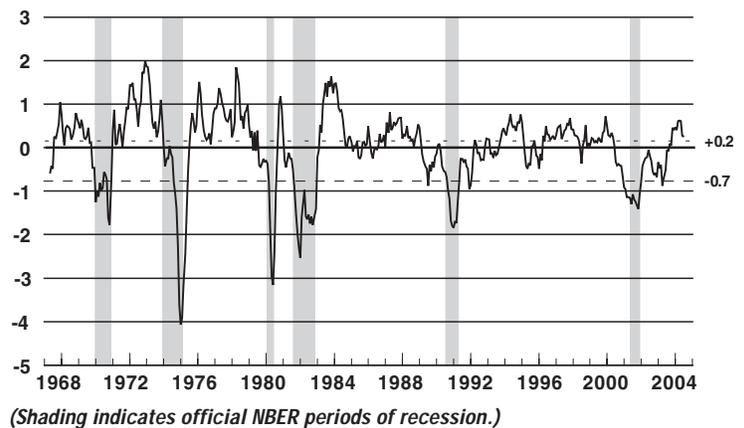
### Interpreting the CFNAI-MA3

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.

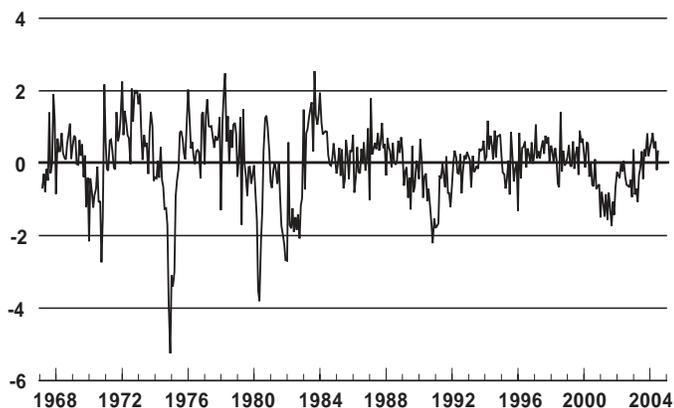
### CFNAI-MA3 and Inflation Cycles



### CFNAI-MA3 and Business Cycles



### CFNAI, Monthly Index



### 2004 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.