

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
June 30, 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:  
July 22, 2004  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

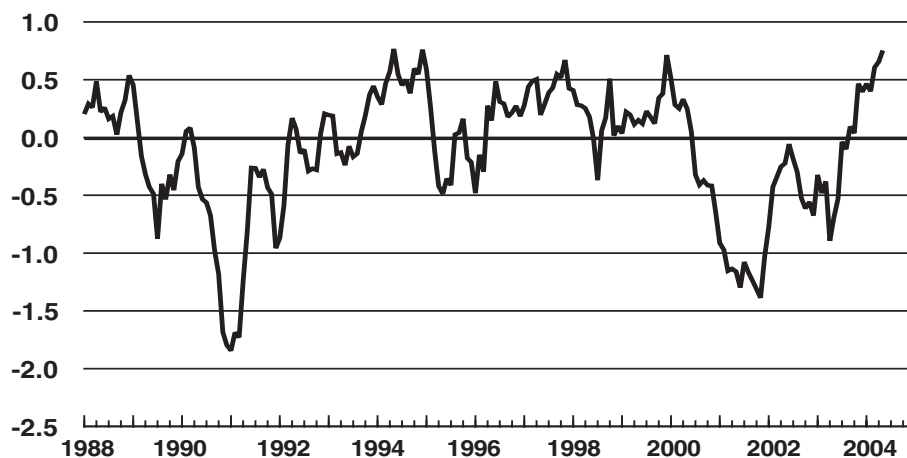
## CFNAI indicates even stronger economic activity in May

The Chicago Fed National Activity index moved sharply higher in May, to +0.91, from a downward-revised +0.52 the previous month. As was the case in April, production- and employment-related data added the most to May's CFNAI, although each of the four broad categories of indicators that comprise the index made positive contributions. The three-month moving average, CFNAI-MA3, was +0.75 in May, up from +0.66 in April. This was the ninth consecutive reading above zero and the highest since December 1994. CFNAI-MA3 values above zero are associated with above-trend economic growth; accordingly, the latest CFNAI-MA3 value suggests that economic activity was increasing faster than its historical trend rate of growth again in May. In addition, readings above +0.70 in the CFNAI-MA3 at least two years into an expansion point to an increasing likelihood of rising inflation.

Production-related data made the largest contribution (+0.48) to May's CFNAI. Following a strong gain in April, industrial production (IP) jumped 1.1% in May, the biggest monthly increase since August 1998. Manufacturing IP also rose solidly, and capacity utilization at U.S. factories continued to move higher. In addition, the Institute for Supply Management's (ISM) Purchasing Managers' Index for manufacturing increased to 62.8 in May from 62.4 the previous month, indicating robust expansion in manufacturing.

Employment-related data made a positive contribution (+0.20) to the CFNAI in May for the third straight month. Nonfarm payrolls increased by 248,000 last month, and data for March and April were revised up substantially. Notably, manufacturing employment was up 32,000 in May, the largest increase in nearly six years. Moreover, the employment component of the ISM's manufacturing survey rose to its highest reading in more than 31 years. The contribution from the sales, inventories, and orders

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



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

|                  | May '04 | Apr '04 | Mar '04 | Feb '04 | Jan '04 | Dec '03 | May '03 |
|------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>CFNAI</b>     |         |         |         |         |         |         |         |
| Current          | +0.91   | +0.52   | +0.83   | +0.62   | +0.37   | +0.21   | -0.29   |
| Previous         | N/A     | +0.64   | +0.23   | +0.48   | +0.38   | +0.21   | -0.28   |
| <b>CFNAI-MA3</b> |         |         |         |         |         |         |         |
| Current          | +0.75   | +0.66   | +0.61   | +0.40   | +0.46   | +0.40   | -0.69   |
| Previous         | N/A     | +0.45   | +0.37   | +0.36   | +0.47   | +0.40   | -0.71   |

Current and Previous values reflect index values as of the June 30, 2004, release and May 20, 2004, release, respectively. N/A indicates not applicable.

category swung from -0.11 in April to +0.12 in May. Finally, the consumption and housing category made a +0.11 contribution to the CFNAI in May, more than the +0.05 in April. Building permits rose by 3.5% in May, to the highest level in three decades. Housing starts continued to edge down, but, like permits, remained above historical norms. Accordingly, both made positive contributions to May's CFNAI.

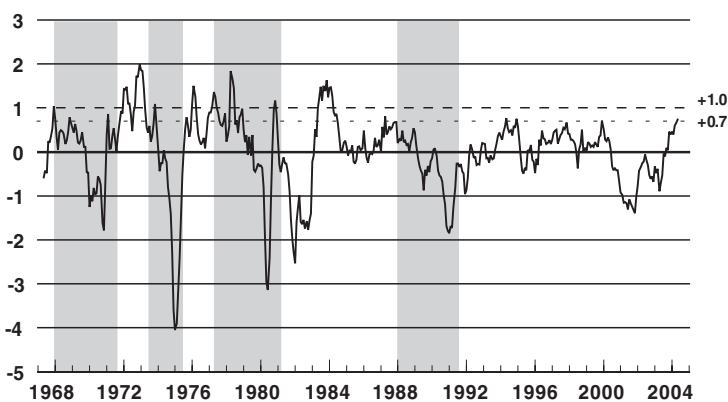
Overall, 63 of the 85 individual indicators made positive contributions to the index in May. Fifty-six individual series improved from April to May, with only seven of these still indicating below-average contributions to the index. The CFNAI was constructed using data available as of June 28. At that time, May data for 63 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The estimate of the CFNAI for April was revised down to +0.52 from its initial estimate of +0.64. 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 April, the downward adjustment to the CFNAI was due primarily to differences between estimates of previously unavailable data and subsequently published data.

### Interpreting the CFNAI-MA3

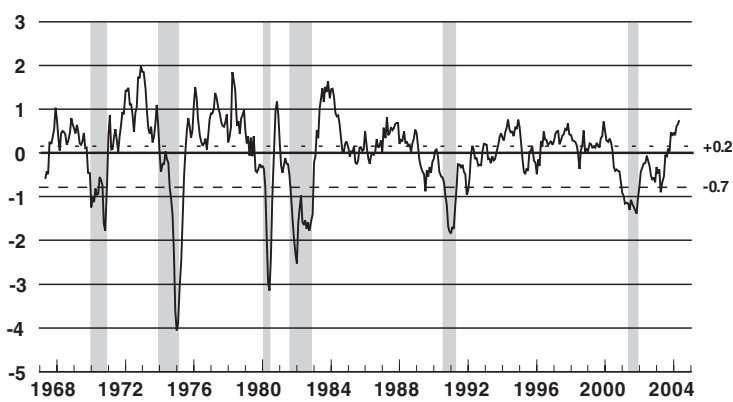
|  |   |
|--|---|
| If CFNAI-MA3 > +1.00 more than two years into an economic expansion... | Substantial likelihood that a period of sustained accelerating inflation has begun. |
| If CFNAI-MA3 > +0.70 more than two years into an economic expansion... | Increasing likelihood that a period of sustained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



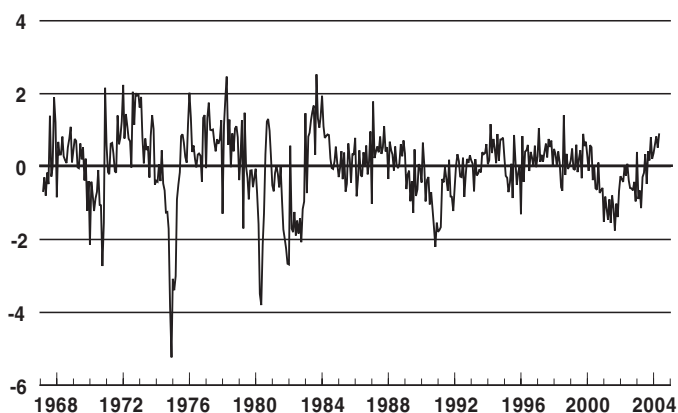
(Shading represents periods of substantial inflation increases.)

### CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession.)

### CFNAI, Monthly Index



### 2004 CFNAI Release Dates

| Date of Release    | Monthly Data for: |
|--------------------|-------------------|
| 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>.