

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:
September 22, 2005
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

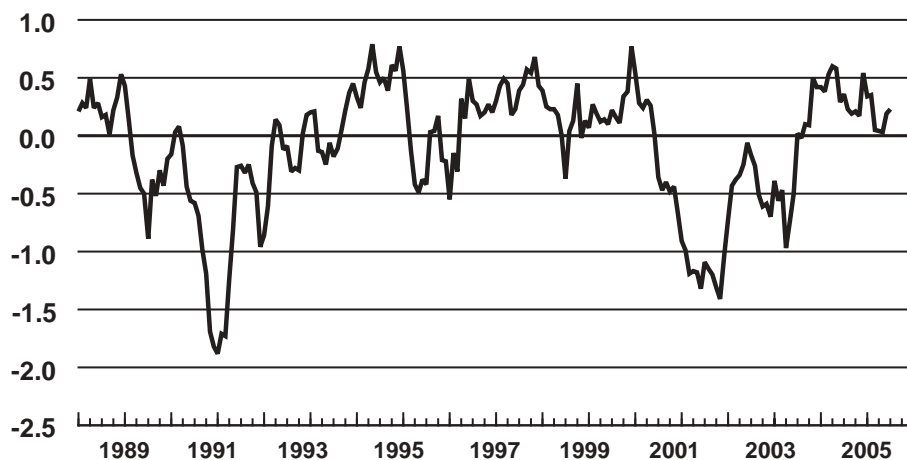
CFNAI indicates economic growth remains above trend in July

The Chicago Fed National Activity Index was +0.16 in July, down from +0.40 in June. 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 +0.23 in July. A CFNAI-MA3 reading of zero is associated with trend economic growth. After running close to zero between March and May, the index rose to approximately +0.20 in June and July. This suggests that growth in national economic activity moved back 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 swing in the contribution of production-related indicators from +0.24 in June to -0.03 in July. Total industrial production rose 0.1 percent in July, following a 0.8 percent increase in June. In manufacturing, output rose 0.1 percent in July, and capacity utilization held steady at 78.3 percent.

The consumption and housing-related data category made a positive contribution of +0.10 to the CFNAI. Housing starts were little changed in June and July, and residential building permits were up 1.6 percent in July after rising 3.4 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 +0.03 to the July 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

	Jul '05	Jun '05	May '05	Apr '05	Mar '05	Feb '05	Jul '04
CFNAI							
Current	+0.16	+0.40	+0.13	+0.05	-0.09	+0.15	+0.61
Previous	N/A	+0.28	-0.03	+0.12	-0.10	+0.12	+0.61
CFNAI-MA3							
Current	+0.23	+0.19	+0.03	+0.04	+0.05	+0.35	+0.36
Previous	N/A	+0.12	0.00	+0.05	+0.04	+0.35	+0.36

Current and Previous values reflect index values as of the August 18, 2005, release and July 21, 2005, release, respectively. N/A indicates not applicable.

The employment-related category of indicators made a contribution of +0.06 to the CFNAI. Notably, the nonfarm payroll employment gain of 207,000 in July was higher than the gain of 166,000 in June. In addition, the unemployment rate held steady at 5.0 percent.

Forty-three of the 85 individual indicators made positive contributions to the index in July, while 41 made negative contributions and one was neutral. Forty-five indicators improved from June to July, although thirteen of these made below-average contributions to the index. The CFNAI was constructed using data available as of August 16, 2005. 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.

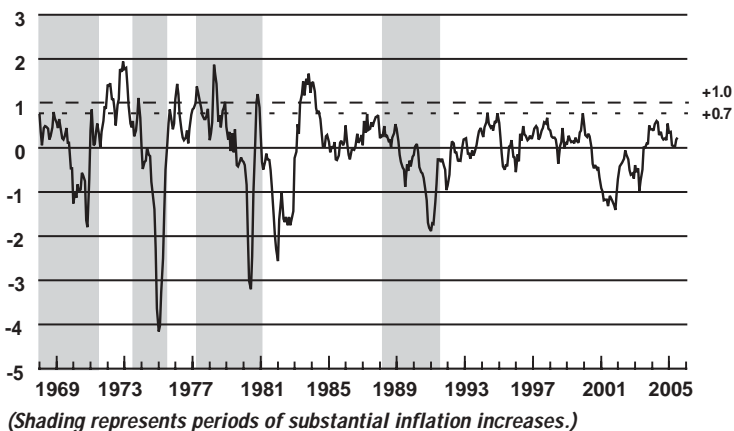
June's CFNAI was revised up from its initial estimate of +0.28 to +0.40. Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differ-

ences between the estimates of previously unavailable data and subsequently published data. The upward revision to June's CFNAI was primarily due to differences between estimates of previously unavailable data and subsequently published data.

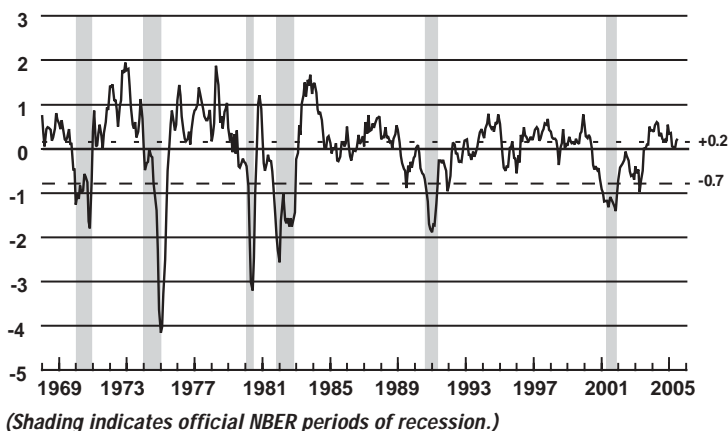
Interpreting the CFNAI-MA3

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.

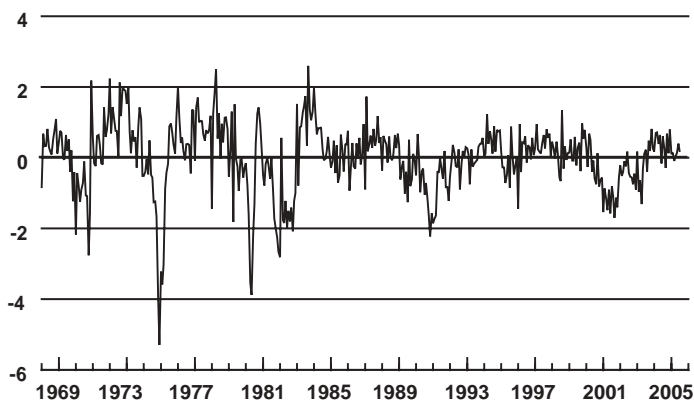
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2005 CFNAI Release Dates

Date of Release	Monthly Data for:
September 22, 2005	August 2005
October 26, 2005	September 2005
November 22, 2005	October 2005
December 22, 2005	November 2005