

## News Release

Embargoed for release:  
10:00 am Eastern 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:  
August 18, 2005  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

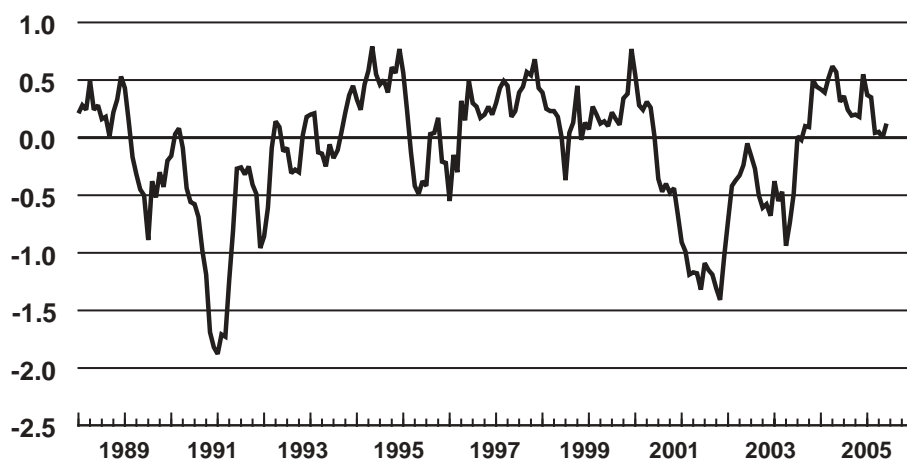
## CFNAI indicates economic growth slightly above trend in June

The Chicago Fed National Activity Index was +0.28 in June, up from -0.03 in May. Three of the four broad categories of indicators that make up the index—production and income, consumption and housing, and sales, orders, and inventories—made positive contributions (see sidebar). The three-month moving average, CFNAI-MA3, was +0.12 in June. A CFNAI-MA3 reading above zero is associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.12 in June suggests that growth in national economic activity was slightly above its historical trend. With regard to inflation, a CFNAI-MA3 value near zero indicates relatively neutral inflationary pressures.

The increase in the CFNAI largely reflected a rise in the contribution of production-related indicators from +0.09 in May to +0.23 in June. Total industrial production rose 0.9 percent in June, following a 0.3 percent increase in May. In manufacturing, output rose 0.4 percent in June, capacity utilization edged up to 78.4 percent, and the Institute for Supply Management's composite index rose to 53.8.

The consumption and housing-related data category also made a positive contribution of +0.10 to the CFNAI. Housing starts were unchanged in June after rising 1.1 percent in May, and residential building permits were up 2.4 percent after falling 4.0 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, inventories, and orders category also made a positive contribution of +0.02 to the June 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

	Jun '05	May '05	Apr '05	Mar '05	Feb '05	Jan '05	Jun '04
CFNAI							
Current	+0.28	-0.03	+0.12	-0.09	+0.12	+0.11	-0.11
Previous	N/A	+0.10	+0.05	-0.17	+0.10	+0.12	-0.10
CFNAI-MA3							
Current	+0.12	0.00	+0.05	+0.04	+0.35	+0.37	+0.31
Previous	N/A	-0.01	-0.01	+0.01	+0.35	+0.37	+0.31

Current and Previous values reflect index values as of the July 21, 2005, release and June 22, 2005, release, respectively. N/A indicates not applicable.

The employment-related category of indicators made a contribution of  $-0.07$  to the CFNAI. Notably, the nonfarm payroll employment gain of 146,000 in June was below its historical average. However, this was partially offset by the unemployment rate, which declined 0.1 percentage point to 5.0 percent.

Forty-four of the 85 individual indicators made positive contributions to the index in June, while 40 made negative contributions and one was neutral. Fifty-three indicators improved from May to June, although eighteen of these made below-average contributions to the index. The CFNAI was constructed using data available as of July 19, 2005. At that time, June data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

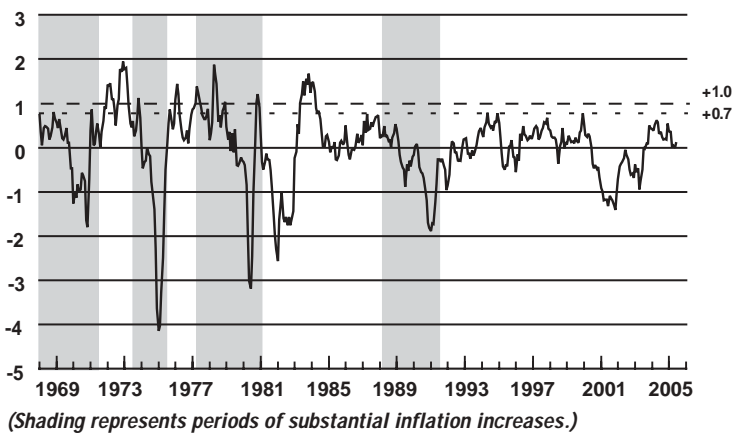
May's CFNAI was revised down from its initial estimate of  $+0.10$  to  $-0.03$ . Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable

data and subsequently published data. The downward revision to May's CFNAI was primarily due to differences between estimates of previously unavailable data and subsequently published data.

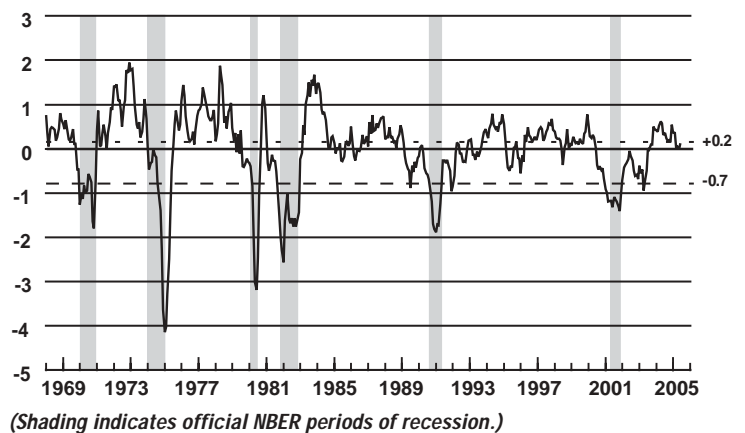
### Interpreting the CFNAI-MA3

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.

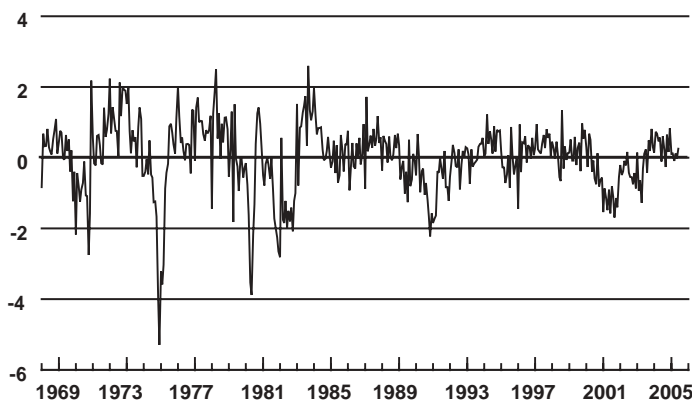
### CFNAI-MA3 and Inflation Cycles



### CFNAI-MA3 and Business Cycles



### CFNAI, Monthly Index



### 2005 CFNAI Release Dates

Date of Release	Monthly Data for:
August 18, 2005	July 2005
September 22, 2005	August 2005
October 26, 2005	September 2005
November 22, 2005	October 2005
December 22, 2005	November 2005

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