

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
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Contact:  
Debbie Baratz  
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 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 21, 2006  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

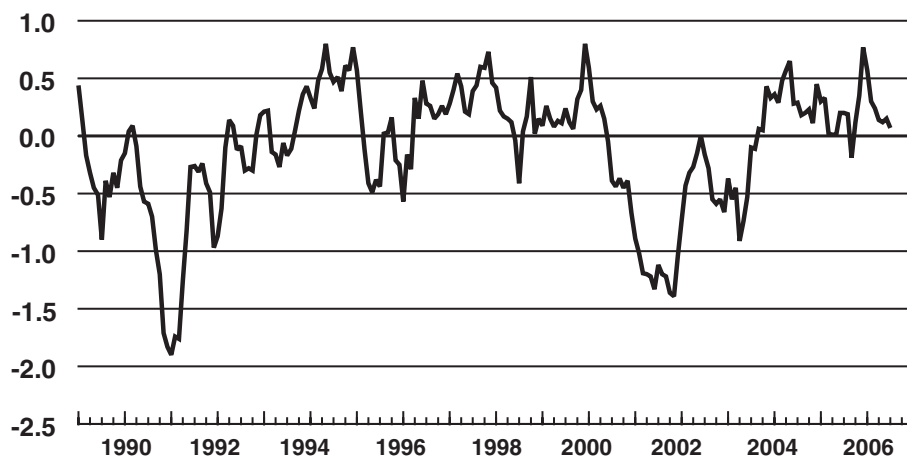
## CFNAI indicates economic growth slightly above trend in July

The Chicago Fed National Activity Index was  $-0.12$  in July, down from  $+0.43$  in June. Two of the four broad categories of indicators in the index made small positive contributions (see sidebar). The three-month moving average, CFNAI-MA3, declined from  $+0.15$  in June to  $+0.07$  in July. A CFNAI-MA3 reading above zero is associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of  $+0.07$  for July suggests that growth in national economic activity was slightly 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 positive contribution of  $+0.01$  to the CFNAI in July after adding  $+0.33$  in June. Total industrial production rose 0.4 percent in July after rising 0.8 percent in the previous month. Manufacturing capacity utilization increased slightly from 82.3 percent in June to 82.4 percent in July.

Consumption and housing indicators made a positive contribution of  $+0.04$  in July. Housing starts fell 2.5 percent in July, and residential building permits declined 6.5 percent. However, both measures remained above historical norms and continued to make positive contributions to the CFNAI. The sales, orders, and inventories category made a neutral contribution 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 '06	Jun '06	May '06	Apr '06	Mar '06	Feb '06	Jul '05
<b>CFNAI</b>							
Current	-0.12	+0.43	-0.11	+0.14	+0.34	-0.06	+0.10
Previous	N/A	+0.34	-0.14	+0.13	+0.34	-0.03	+0.10
<b>CFNAI-MA3</b>							
Current	+0.07	+0.15	+0.12	+0.14	+0.24	+0.30	+0.20
Previous	N/A	+0.11	+0.11	+0.15	+0.23	+0.29	+0.21

Current and Previous values reflect index values as of the August 23, 2006, release and July 26, 2006, release, respectively. N/A indicates not applicable.

Employment-related indicators made a negative contribution of  $-0.17$  to the CFNAI in July after contributing  $+0.03$  in June. The unemployment rate rose from 4.6 percent in June to 4.8 percent in July. Nonfarm payroll employment increased 113,000 in July, slightly below the 124,000 gain in June.

Thirty-four of the 85 individual indicators made positive contributions to the index in July, while 50 made negative contributions and one was neutral. Thirty-three indicators improved from June to July, although twelve of these made below-average contributions to the index. The CFNAI was constructed using data available as of August 21, 2006. At that time, July data for 52 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

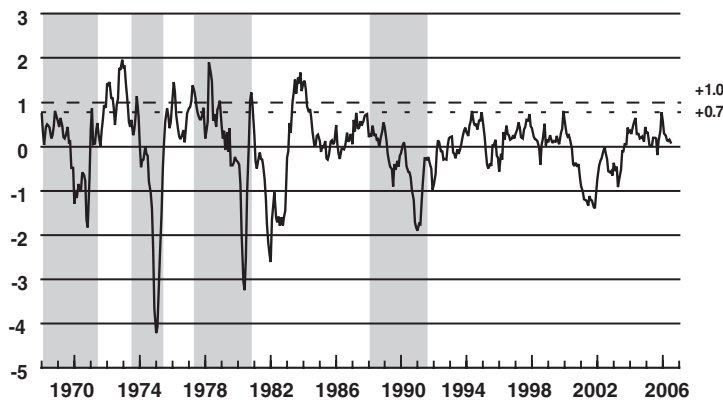
June's CFNAI initial estimate of  $+0.34$  was revised up to  $+0.43$ . Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences

between the estimates of previously unavailable data and subsequently published data. The upward revision to the June CFNAI was primarily due to revisions in previously published data.

### Interpreting the CFNAI-MA3

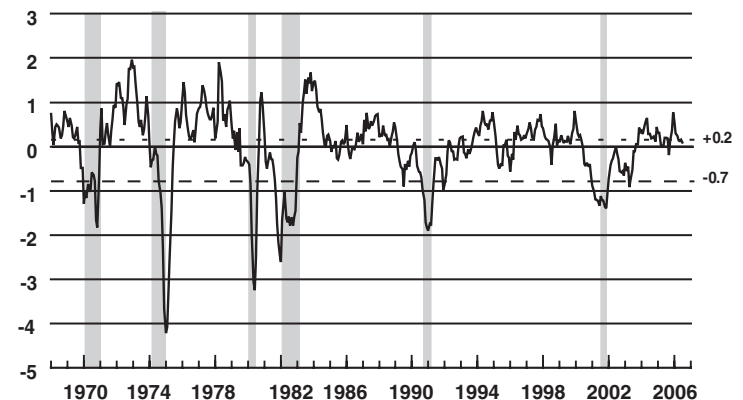
If CFNAI-MA3 $> +1.00$ more than two years into an economic expansion...	Substantial likelihood that a period of sustained accelerating inflation has begun.
If CFNAI-MA3 $> +0.70$ more than two years into an economic expansion...	Increasing likelihood that a period of sustained accelerating inflation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



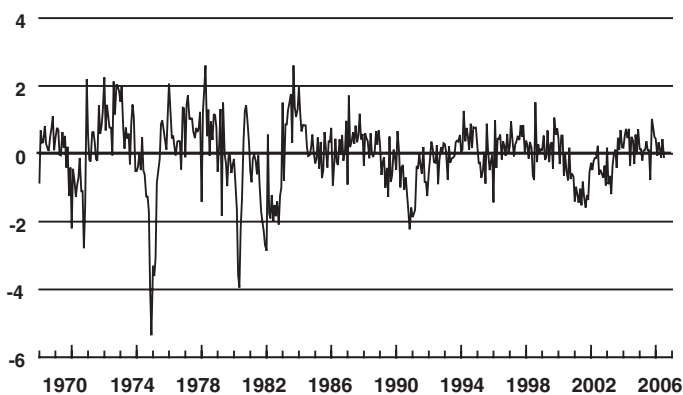
(Shading represents periods of substantial inflation increases.)

### CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession.)

### CFNAI, Monthly Index



### 2006 CFNAI Release Dates

Date of Release	Monthly Data for:
September 21, 2006	August 2006
October 25, 2006	September 2006
November 21, 2006	October 2006
December 21, 2006	November 2006