

## News Release

Embargoed for release:  
8:30 am Eastern Time  
7:30 am Central Time  
June 23, 2008

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### What is the National Activity Index?

The index is a weighted average of 85 indicators of national economic activity. The indicators 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.

A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values indicate below-average growth; and positive values indicate above-average growth.

### Why are there two index values?

Each month, we provide a monthly index number, which reflects economic activity in the latest month for which we have data, and a three-month moving average. Month-to-month movements can be volatile, so the index's three-month moving average, the CFNAI-MA3, provides a more consistent picture of national economic growth.

### What do the numbers mean?

When the CFNAI-MA3 value moves below  $-0.70$  following a period of economic expansion, there is an increasing likelihood that a recession has begun.

When the CFNAI-MA3 value moves above  $+0.70$  more than two years into an economic expansion, there is an increasing likelihood that a period of sustained increasing inflation has begun.

The next CFNAI will be released:  
July 21, 2008  
8:30 am Eastern Time  
7:30 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed *National Activity Index*

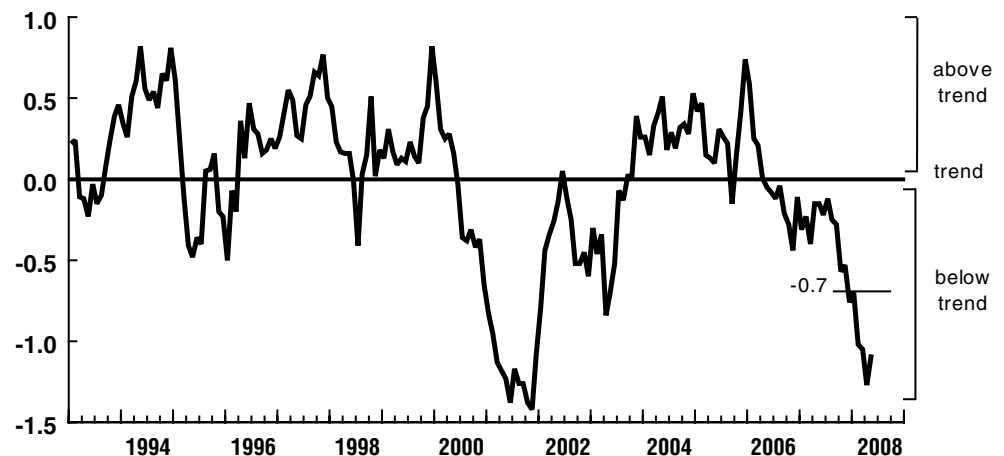
## Index shows slow but improved economic activity in May

*The Chicago Fed National Activity Index was  $-0.96$  in May, up from  $-1.23$  in April. However, all four broad categories of indicators made negative contributions to the index in May.*

The three-month moving average, CFNAI-MA3, increased to  $-1.08$  in May from  $-1.27$  in April. This negative value suggests that growth in national economic activity was below its historical trend. With regard to inflation, May's three-month moving average indicates low inflationary pressure from economic activity over the coming year. In addition, a CFNAI-MA3 value below  $-0.70$  following a period of economic expansion indicates an increasing likelihood that a recession has begun. May marked the sixth consecutive month that the three-month moving average was below the  $-0.70$  threshold.

The improvement in the index from April to May was primarily due to an increase in the contribution of production-related indicators. These indicators made a contribution of  $-0.19$  to the index in May, compared with a contribution of  $-0.64$  in April. Total industrial production decreased 0.2 percent in May after declining 0.7 percent in the previous month, and the

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 '08	Apr '08	Mar '08	Feb '08	Jan '08	Dec '07	May '07
<b>CFNAI</b>							
Current	-0.96	-1.23	-1.05	-1.54	-0.56	-0.97	-0.29
Previous	N/A	-1.17	-0.98	-1.59	-0.58	-0.95	-0.29
<b>CFNAI-MA3</b>							
Current	-1.08	-1.27	-1.05	-1.02	-0.70	-0.76	-0.15
Previous	N/A	-1.24	-1.05	-1.04	-0.71	-0.77	-0.15

Current and Previous values reflect index values as of the June 23, 2008, release and May 20, 2008, release, respectively. N/A indicates not applicable.

Institute for Supply Management's Purchasing Managers' Index (PMI) increased from 48.6 in April to 49.6 in May.

The increase in the contribution from production-related indicators was partially offset by a decrease in the contribution from employment-related indicators. These indicators made a contribution of  $-0.45$  to the index in May, following a contribution of  $-0.25$  in April. Total nonfarm payroll employment declined by 49,000 in May after a decrease of 28,000 in the previous month, and the unemployment rate increased from 5.0 percent in April to 5.5 percent in May.

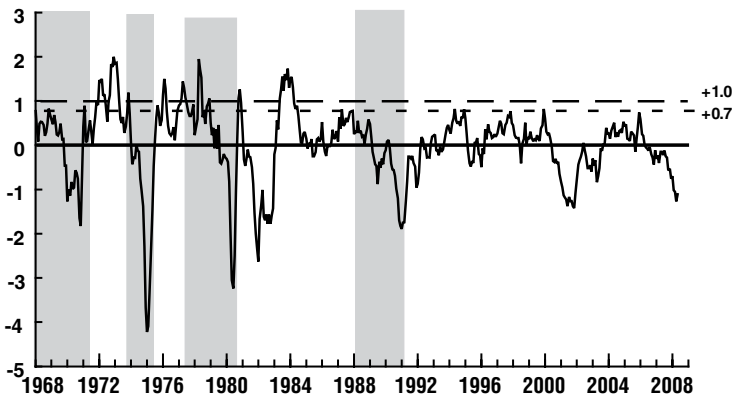
The consumption and housing category also made a large negative contribution of  $-0.25$  to the index in May, following a contribution of  $-0.28$  in April. Housing starts decreased 3.3 percent in May following a 2.0 percent increase in the previous month, and building permits were 1.3 percent lower in May after increasing 5.4 percent in April. However, this category made a slightly larger overall contribution in May because of improvements in consumption-related indicators.

The sales, orders, and inventories category made a contribution of  $-0.08$  in May.

Twenty-two of the 85 individual indicators made positive contributions to the index in May, while 63 made negative contributions. Forty-eight indicators improved from April to May, while 37 indicators deteriorated. Of the improved indicators, 31 made negative contributions. The index was constructed using data available as of June 19, 2008. At that time, May data for 52 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

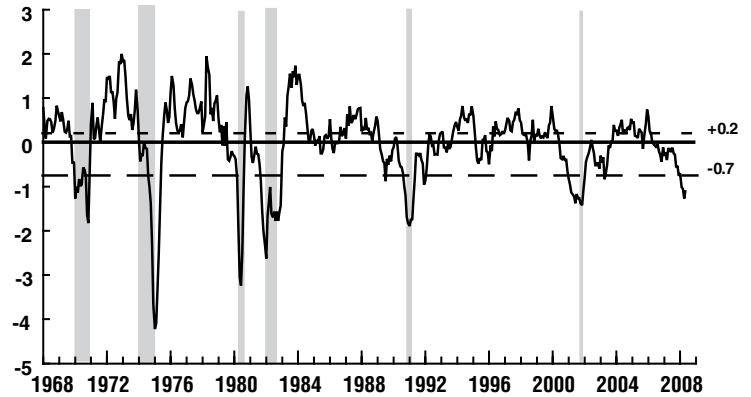
The April monthly index was revised down to  $-1.23$  from an initial estimate of  $-1.17$ . Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The downward revision to the April monthly index was primarily due to revisions in previously published data.

### CFNAI-MA3 and Inflation Cycles



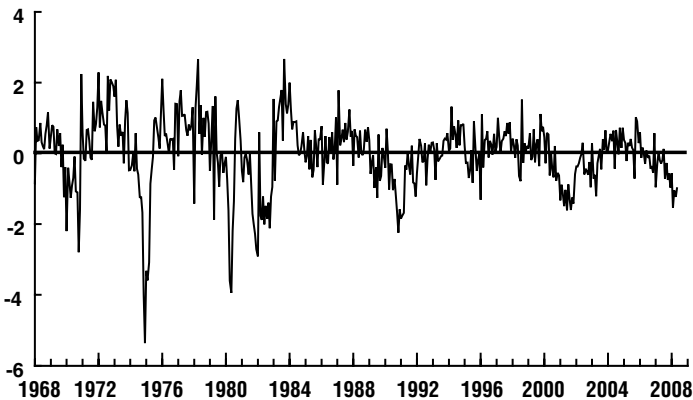
Notes: Shading represents periods of substantial inflation increases. A CFNAI-MA3 value above  $+0.70$  more than two years into an economic expansion indicates an increasing likelihood that a period of sustained increasing inflation has begun. A CFNAI-MA3 value above  $+1.00$  more than two years into an economic expansion indicates a substantial likelihood that a period of sustained increasing inflation has begun.

### CFNAI-MA3 and Business Cycles



Notes: Shading indicates official periods of recession as identified by the National Bureau of Economic Research. A CFNAI-MA3 value below  $-0.70$  following a period of economic expansion indicates an increasing likelihood that a recession has begun. A CFNAI-MA3 value above  $+0.20$  following a period of economic contraction indicates a significant likelihood that a recession has ended.

### CFNAI, Monthly Index



### 2008 CFNAI Release Dates

Date of Release	Monthly Data for
July 21, 2008	June 2008
August 25, 2008	July 2008
September 22, 2008	August 2008
October 21, 2008	September 2008
November 24, 2008	October 2008
December 22, 2008	November 2008