

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 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:
August 19, 2004
10:00 am Eastern Time
9:00 am Central Time

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OF CHICAGO

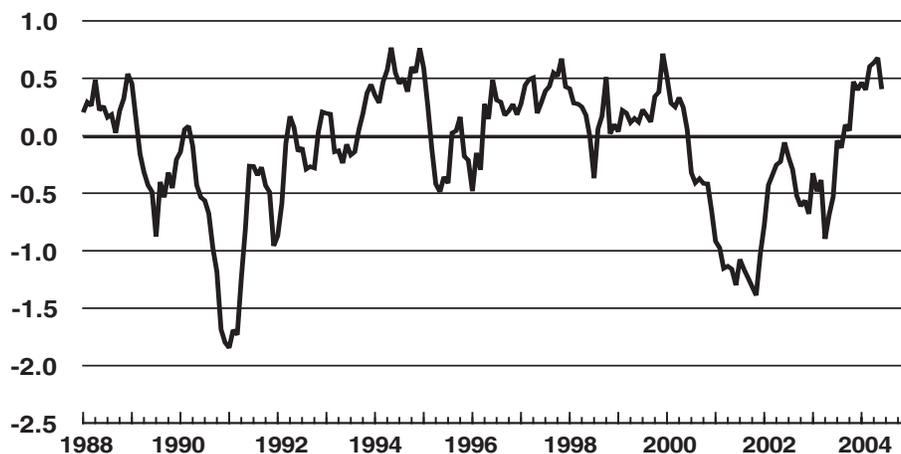
Chicago Fed National Activity Index

CFNAI suggests somewhat slower economic growth in June

The Chicago Fed National Activity index was 0.00 in June, a marked decrease from the May reading of +0.75. The production- and employment-related categories of indicators made negative contributions to the overall index in June, but these were offset by positive contributions from the consumption and housing category and from the sales, inventories, and orders category. The three-month moving average, CFNAI-MA3, fell to +0.41 in June, from +0.68 in May. However, CFNAI-MA3 readings above zero are associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of +0.41 suggests that growth in national economic activity was above its historical trend in June, as it has been since last September. With regard to inflation, CFNAI-MA3 values above zero suggest increased inflationary pressures over the coming year.

Most of the decrease in June's CFNAI can be attributed to a drop in the contribution of production-related measures, from +0.34 in May to -0.15 last month. Industrial production (IP) fell 0.3 percent in June after a 0.9 percent jump in May. Manufacturing output, which accounts for the bulk of IP, edged down 0.1 percent in June, the first monthly decline since May 2003. The weakness in June's IP numbers was mitigated by a strong report on manufacturing from the Institute for Supply Management (ISM). The ISM's composite index for manufacturing came in at 61.1 in June, down from 62.8 the previous month. However, June marked the eighth straight month in which this index has exceeded 60, suggesting robust expansion in manufacturing activity.

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 '04	May '04	Apr '04	Mar '04	Feb '04	Jan '04	Jun '03
CFNAI							
Current	0.00	+0.75	+0.47	+0.82	+0.63	+0.37	-0.18
Previous	N/A	+0.91	+0.52	+0.83	+0.62	+0.37	-0.17
CFNAI-MA3							
Current	+0.41	+0.68	+0.64	+0.60	+0.40	+0.46	-0.53
Previous	N/A	+0.75	+0.66	+0.61	+0.40	+0.46	-0.53

Current and Previous values reflect index values as of the July 22, 2004, release and June 30, 2004, release, respectively. N/A indicates not applicable.

In June, the employment-related category made a negative contribution (-0.02) to the monthly index for the first time since February. Nonfarm payroll employment did rise by 112,000 last month, the tenth straight monthly increase. The June gain, however, was below the historical average, so its contribution to the monthly CFNAI was negative. In addition, manufacturing payrolls contracted in June, after increasing in each of the previous four months. The contribution to the monthly index from consumption and housing-related data fell from +0.11 in May to +0.06 last month. Notably, housing starts fell in June, to a 1.802 million-unit seasonally adjusted annual rate, the slowest pace since May 2003. Finally, the sales, inventories, and orders category added +0.11 to the June CFNAI.

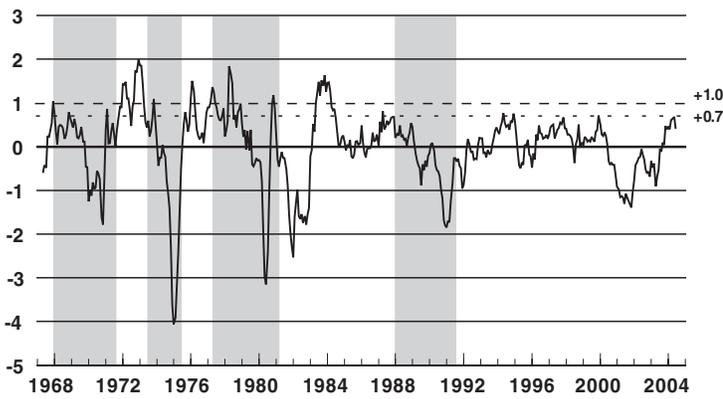
Overall, 40 of the 85 individual indicators made positive contributions to the monthly index. From May to June, 26 of the indicators improved, 58 deteriorated, and 1 was unchanged. The CFNAI was constructed using data available as of July 20, 2004. At that time, June data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

The estimate of May's CFNAI was revised down to +0.75 from its initial estimate of +0.91. 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. Most of the downward revision to May's CFNAI was due to revisions in previously published data.

Interpreting the CFNAI-MA3

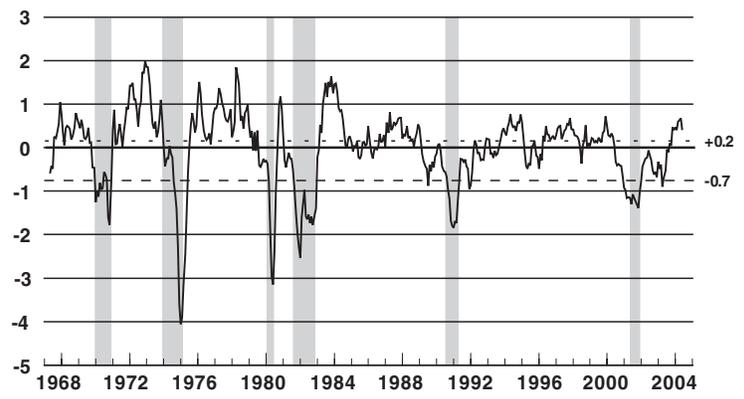
If CFNAI-MA3 > +1.00 more than two years into an economic expansion...	Substantial likelihood that a period of sustained accelerating inflation has begun.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...	Increasing likelihood that a period of sustained accelerating inflation has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



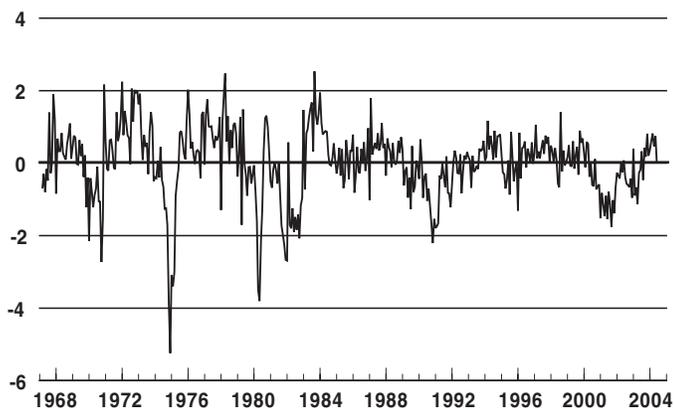
(Shading represents periods of substantial inflation increases.)

CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession.)

CFNAI, Monthly Index



2004 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.