

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central 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:  
July 26, 2006  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
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# Chicago Fed National Activity Index

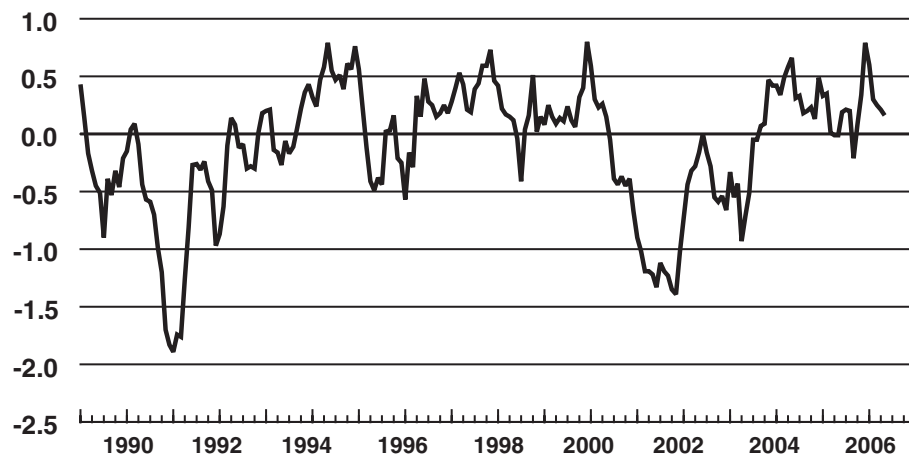
## CFNAI suggests moderating economic growth in May

The Chicago Fed National Activity Index was  $-0.16$  in May, down from  $+0.26$  in April. Two of the four broad categories of indicators in the index made negative contributions (see sidebar). The three-month moving average, CFNAI-MA3, was  $+0.16$  in May. A CFNAI-MA3 reading above zero is associated with above-trend economic growth; accordingly, the CFNAI-MA3 value of  $+0.16$  in May 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 negative contribution of  $-0.16$  to the CFNAI in May after adding  $+0.27$  in April. Total industrial production fell 0.1 percent in May after rising 0.8 percent in the previous month. Manufacturing capacity utilization decreased from 81.9 percent in April to 81.7 percent in May.

Employment-related indicators made a negative contribution of  $-0.08$  to the CFNAI in May after contributing  $-0.07$  to the index in April. Nonfarm payroll employment increased 75,000 in May, which was down from the 126,000 gain in April. The unemployment rate decreased from 4.7 in April to 4.6 percent in May.

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 '06 | Apr '06 | Mar '06 | Feb '06 | Jan '06 | Dec '05 | May '05 |
|------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>CFNAI</b>     |         |         |         |         |         |         |         |
| Current          | -0.16   | +0.26   | +0.38   | -0.02   | +0.39   | +0.52   | +0.11   |
| Previous         | N/A     | +0.38   | +0.35   | +0.01   | +0.37   | +0.52   | +0.11   |
| <b>CFNAI-MA3</b> |         |         |         |         |         |         |         |
| Current          | +0.16   | +0.21   | +0.25   | +0.30   | +0.60   | +0.79   | -0.01   |
| Previous         | N/A     | +0.25   | +0.24   | +0.30   | +0.59   | +0.80   | -0.01   |

Current and Previous values reflect index values as of the June 22, 2006, release and May 18, 2006, release, respectively. N/A indicates not applicable.

The contribution from the consumption and housing indicators was unchanged at +0.08 in May. Housing starts rose 5.0 percent in May, while residential building permits fell 2.1 percent. However, both measures remained above historical norms and, as a result, continued to make positive contributions to the CFNAI. The sales, orders, and inventories category made a neutral contribution to the May CFNAI.

Thirty-three of the 85 individual indicators made positive contributions to the index in May, while 51 made negative contributions and one was neutral. Thirty-six indicators improved from April to May, although thirteen of these made below-average contributions to the index. The CFNAI was constructed using data available as of June 20, 2006. At that time, May data for 49 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

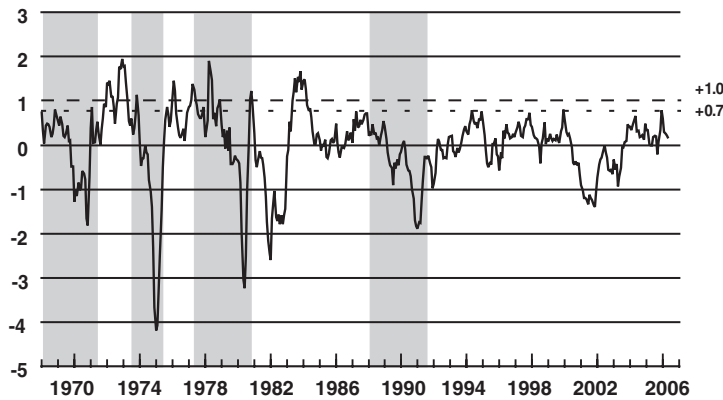
April's CFNAI initial estimate of +0.38 was revised down to +0.26. Revisions to the monthly index can be attributed to two main

factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The downward revision to April's CFNAI was primarily due to differences between the estimates of previously unavailable data and subsequently published data.

**Interpreting the CFNAI-MA3**

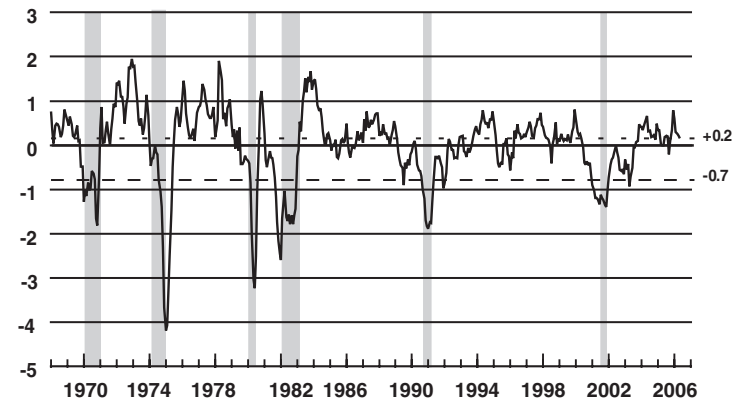
|  |   |
|--|---|
| If CFNAI-MA3 > +1.00 more than two years into an economic expansion... | Substantial likelihood that a period of sustained accelerating inflation has begun. |
| If CFNAI-MA3 > +0.70 more than two years into an economic expansion... | Increasing likelihood that a period of sustained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



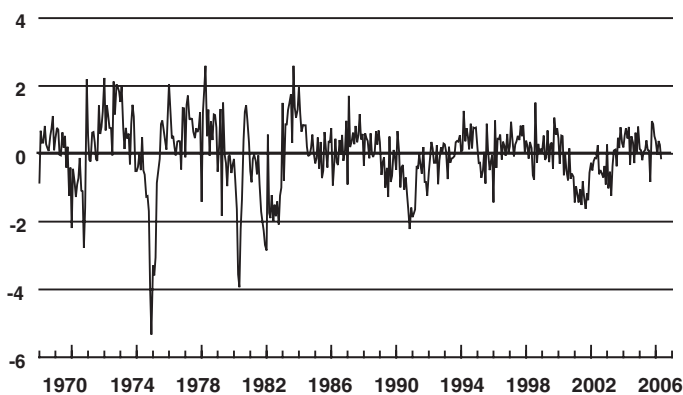
(Shading represents periods of substantial inflation increases.)

**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: |
|--------------------|-------------------|
| July 26, 2006      | June 2006         |
| August 23, 2006    | July 2006         |
| September 21, 2006 | August 2006       |
| October 25, 2006   | September 2006    |
| November 21, 2006  | October 2006      |
| December 21, 2006  | November 2006     |