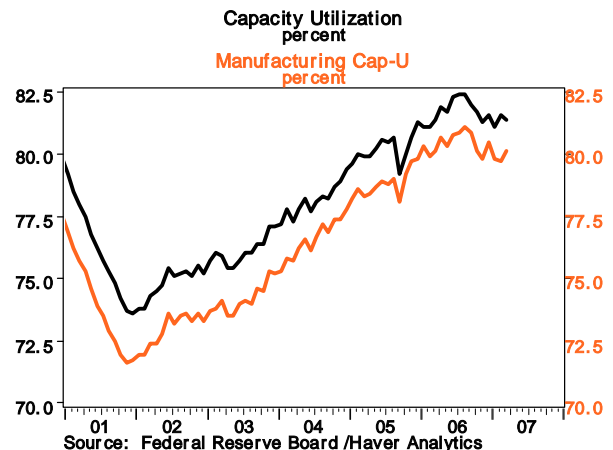
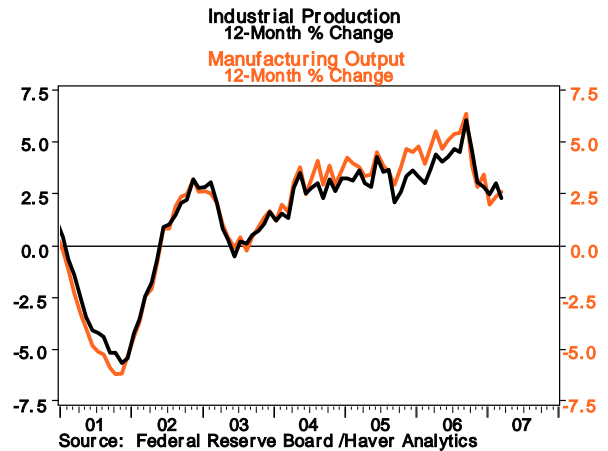


MARCH INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

Chief Economist - Brian S. Wesbury
Senior Economist - Robert Stein, CFA
Economic Research Analyst - Trevor Scott

- Industrial production declined 0.2% in March versus a consensus expectation of zero change. In the past twelve months, industrial production is up 2.3%.
- All of weakness in production is attributable to a huge weather-related 7.0% drop in utility output, the second largest drop in seventeen years.
- Manufacturing production increased 0.7% in March, the largest gain in three months, although production growth was revised down for both January and February. Manufacturing output is up 2.6% versus a year ago. The production of high-tech equipment grew 3.2% in March and is up 24.7% versus a year ago.
- Capacity utilization declined to 81.4% from a downwardly revised 81.6% in February. The consensus forecast was 81.9%. In the manufacturing sector, capacity utilization increased to 80.1%.



Implications: Utility output increased 7.6% in February and then dropped 7% in March, making the trend in industrial production hard to read. However, the two-month change in production is 3.8% at an annual rate, which is consistent with a vibrant economy outside the housing sector. As part of an inventory correction, manufacturing output fell 0.6% in January and increased only 0.1% in February. In March, manufacturing expanded 0.7%, suggesting the inventory correction is now over. The US economy is nowhere near a recession or prolonged slowdown.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-07	Feb-07	Jan-07	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.2%	0.8%	-0.4%	1.1%	0.5%	2.3%
Manufacturing	0.7%	0.1%	-0.6%	0.7%	0.5%	2.6%
Motor Vehicles and Parts	0.1%	2.2%	-5.8%	-13.7%	-4.3%	-5.4%
Ex Motor Vehicles and Parts	0.7%	-0.1%	-0.2%	1.7%	0.9%	3.2%
Mining	0.1%	0.3%	-1.6%	-4.6%	0.6%	2.7%
Utilities	-7.0%	7.6%	2.4%	10.5%	1.2%	-0.4%
Business Equipment	0.8%	0.3%	-2.2%	-4.5%	3.3%	7.4%
Consumer Goods	-0.6%	1.7%	0.0%	4.1%	2.4%	2.1%
High-Tech Equipment	3.2%	0.8%	0.3%	18.3%	17.1%	24.7%
Total Ex. High-Tech Equipment	-0.4%	0.8%	-0.5%	0.0%	-0.4%	1.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	81.4	81.6	81.1	81.4	81.5	81.8
Manufacturing	80.1	79.7	79.8	79.9	80.0	80.4

Source: Federal Reserve Board