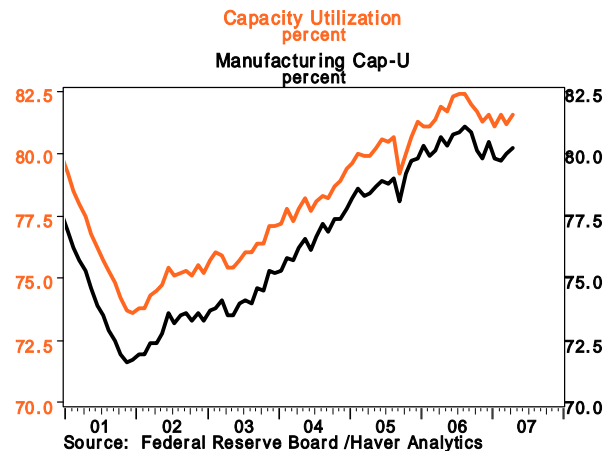
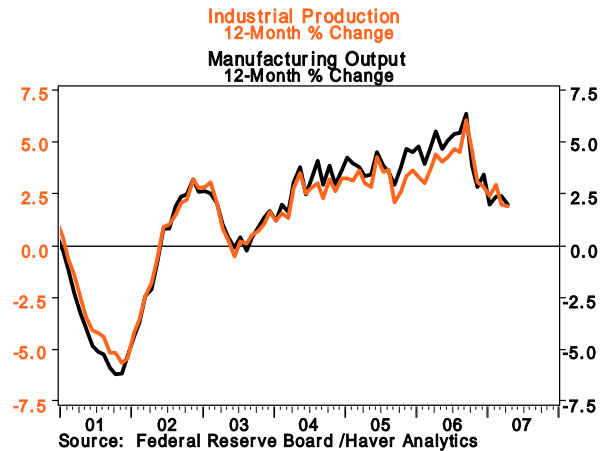


APRIL INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.7% in April versus a consensus expectation of 0.3%. In the past twelve months, industrial production is up 1.9%.
- Manufacturing production increased 0.5% in April, although it was revised down slightly in both February and March. A large part of the increase was due to a 3.3% gain in motor vehicles and parts. Excluding motor vehicles and parts, manufacturing output increased 0.3%.
- The production of high-tech equipment grew 2.6% in April and is up 21.6% versus a year ago.
- Capacity utilization rose to 81.6% versus a consensus forecast of 81.5%. In the manufacturing sector, capacity utilization increased to 80.2%.

Implications: Today's industrial production data confirm the rebound in the manufacturing sector signaled by the strong ISM report released May 1. The short term inventory correction experienced earlier this year is over and real GDP growth will be much higher in the second quarter than the first. The result will be fewer concerns with economic growth at the Federal Reserve, allowing monetary policymakers to focus on inflation. Bottom line: the next Fed move will be to raise rates, not lower them.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-07	Mar-07	Feb-07	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.7%	-0.3%	0.8%	4.7%	1.8%	1.9%
Manufacturing	0.5%	0.5%	0.1%	4.7%	2.8%	2.0%
Motor Vehicles and Parts	3.3%	0.3%	2.4%	26.8%	10.5%	-1.9%
Ex Motor Vehicles and Parts	0.3%	0.6%	-0.1%	3.2%	2.1%	2.2%
Mining	-0.3%	0.1%	0.6%	1.6%	-0.6%	0.9%
Utilities	3.5%	-7.5%	7.2%	11.1%	-3.4%	2.5%
Business Equipment	0.9%	0.9%	0.5%	9.3%	5.2%	5.7%
Consumer Goods	0.9%	-0.8%	1.7%	7.3%	3.8%	2.3%
High-Tech Equipment	2.6%	1.8%	0.3%	20.5%	15.5%	21.6%
Total Ex. High-Tech Equipment	0.6%	-0.4%	0.8%	4.2%	1.1%	0.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	81.6	81.2	81.6	81.5	81.4	81.7
Manufacturing	80.2	80.0	79.7	80.0	80.0	80.3

Source: Federal Reserve Board