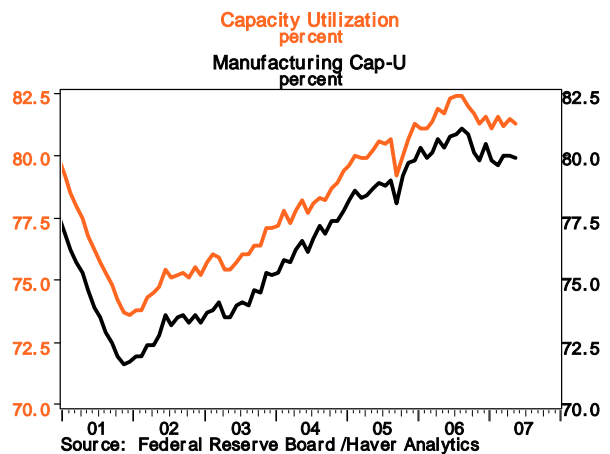
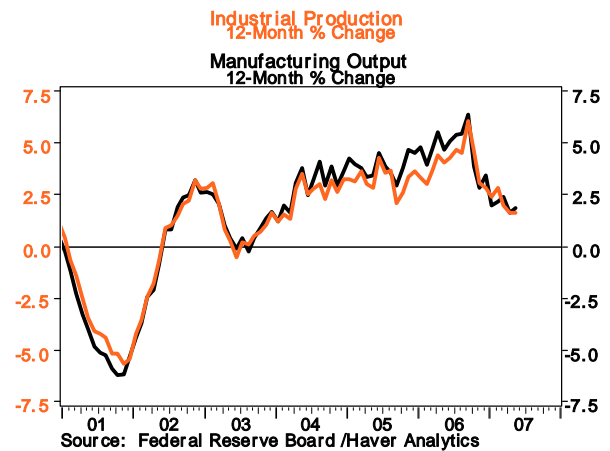


## MAY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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

- Industrial production was unchanged in May versus a consensus expected gain of 0.2%. In the past twelve months, industrial production is up 1.6%.
- Manufacturing production increased 0.1% in May, although it was revised down for April. The largest contributions to the increase in May were from primary metals as well as petroleum and coal products. Manufacturing production is up 1.9% versus last year and up at a 3.9% annual rate in the past three months.
- The production of high-tech equipment grew 0.3% in May and is up 17.1% versus a year ago.
- Capacity utilization declined to 81.3% versus a consensus forecast of 81.6%. In the manufacturing sector, capacity utilization declined to 79.9%.

**Implications:** Today's industrial production data were weaker than anticipated. However, the past three months as a whole show strength, with manufacturing up at a 3.9% annual rate. Overall industrial production during the past three months is up at only a 0.7% annual rate but this is due to a weather-distorted 23% annualized decline in utility output. Also, given the strong number reported earlier today for the Empire State Manufacturing Index, as well as other robust recent data on unemployment claims and retail sales, we believe the economic rebound remains underway.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-07	Apr-07	Mar-07	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.0%</b>	0.4%	-0.3%	0.7%	2.2%	1.6%
<b>Manufacturing</b>	<b>0.1%</b>	0.2%	0.7%	3.9%	2.7%	1.9%
<b>Motor Vehicles and Parts</b>	<b>-0.4%</b>	1.4%	0.5%	6.2%	-1.0%	-2.2%
<b>Ex Motor Vehicles and Parts</b>	<b>0.1%</b>	0.2%	0.6%	3.5%	2.8%	2.2%
<b>Mining</b>	<b>0.4%</b>	-0.6%	0.9%	2.8%	0.0%	0.0%
<b>Utilities</b>	<b>-1.2%</b>	3.3%	-8.2%	-23.0%	0.2%	1.1%
<b>Business Equipment</b>	<b>0.1%</b>	0.0%	1.0%	4.4%	1.7%	4.6%
<b>Consumer Goods</b>	<b>-0.3%</b>	0.8%	-1.0%	-1.8%	2.4%	2.3%
<b>High-Tech Equipment</b>	<b>0.3%</b>	0.9%	1.2%	10.0%	9.0%	17.1%
<b>Total Ex. High-Tech Equipment</b>	<b>0.0%</b>	0.4%	-0.4%	0.0%	1.7%	0.8%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>81.3</b>	81.5	81.2	81.3	81.4	81.7
<b>Manufacturing</b>	<b>79.9</b>	80.0	80.0	80.0	80.0	80.3

Source: Federal Reserve Board