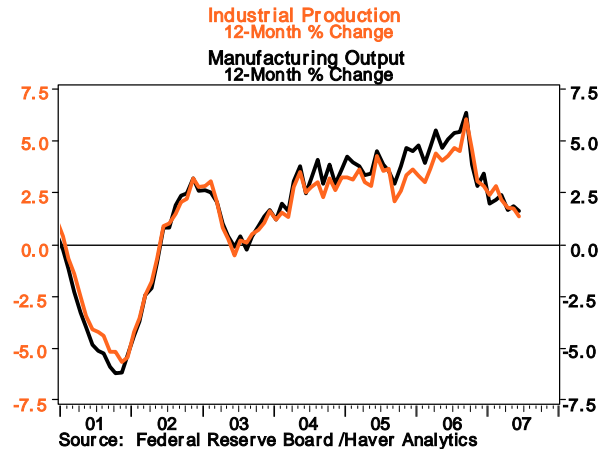


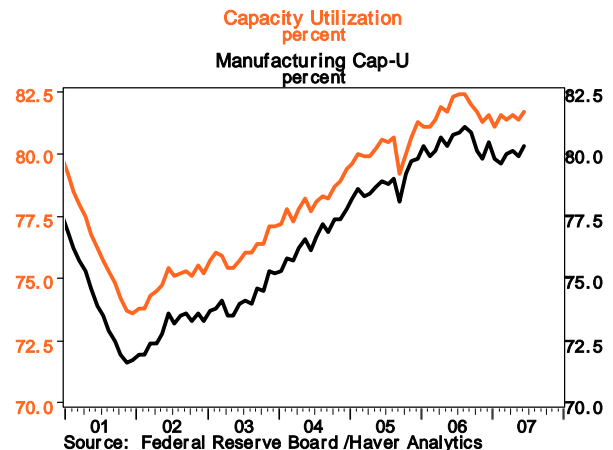
JUNE INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production was up 0.5% in June, as the consensus expected. In the past three months, industrial production is up at a 3.6% annual rate.
- Manufacturing production increased 0.5% in June and is up at a 3.2% annual rate in the past three months. The production of high-tech equipment grew 1.5% in June and is up 16.9% versus a year ago.
- Capacity utilization increased to 81.7% versus a consensus forecast of 81.6%. In the manufacturing sector, capacity utilization rose to 80.3%.



Implications: Today's industrial production data show the economy is expanding at a robust pace. Capacity utilization reached a nine month high in June. The manufacturing sector is strong, as productivity gains help lift output even as manufacturing payrolls decline. Yesterday, the Empire State Manufacturing Index (calculated by the New York Federal Reserve Bank) increased to 26.5 for July, the highest level in more than a year, suggesting a continuation of industrial momentum into the third quarter. One open question is how much of the recent manufacturing strength is due to a front-loading of auto output ahead of a potential labor strike later this year. We believe this may be playing a role but a small one given that the production of motor vehicles and parts is still down 1.7% versus last June. The economy is not strong because of a potential strike. It's strong because tax rates are relatively low, monetary policy is not tight, corporate profits are strong, and consumer net worth and cash flow are at record highs.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-07	May-07	Apr-07	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.5%	-0.1%	0.4%	3.6%	2.2%	1.3%
Manufacturing	0.5%	0.0%	0.3%	3.2%	1.6%	1.6%
Motor Vehicles and Parts	2.5%	-0.5%	1.4%	14.4%	0.8%	-1.7%
Ex Motor Vehicles and Parts	0.4%	0.1%	0.1%	2.4%	1.7%	1.8%
Mining	0.6%	0.3%	-0.1%	3.2%	-2.9%	-0.1%
Utilities	0.3%	-1.6%	2.8%	5.7%	11.2%	0.7%
Business Equipment	0.0%	0.0%	0.1%	0.3%	-2.1%	3.4%
Consumer Goods	0.7%	-0.5%	0.5%	2.6%	2.8%	1.6%
High-Tech Equipment	1.5%	0.3%	0.9%	11.2%	9.9%	16.9%
Total Ex. High-Tech Equipment	0.6%	-0.2%	0.4%	3.0%	1.7%	0.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	81.7	81.4	81.6	81.6	81.5	81.7
Manufacturing	80.3	79.9	80.1	80.1	80.0	80.3

Source: Federal Reserve Board