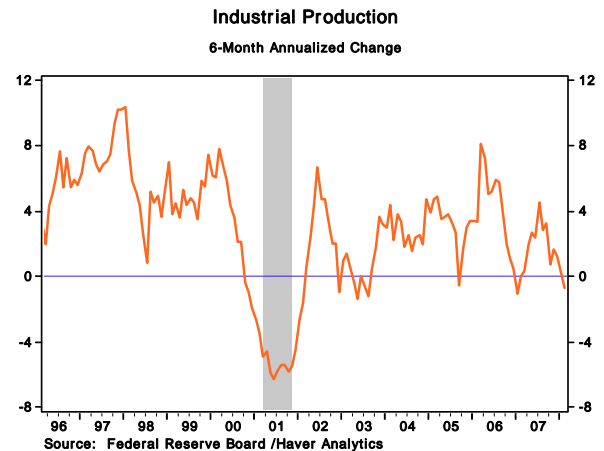
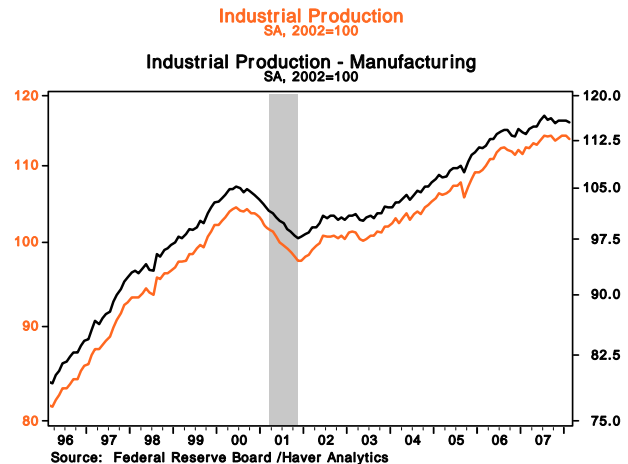


FEBRUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production fell 0.5% in February, which was much worse than the consensus expected decline of 0.2%. January was unrevised, but December was revised upwardly from 0.1% to 0.2%.
- Manufacturing output fell 0.3% in February and was unchanged in January. The production of high-tech equipment grew 1.1% in February and is up 17.3% versus last year.
- Overall capacity utilization fell to 80.9% in February, while manufacturing capacity utilization fell to 79.3%.

Implications: The larger-than-expected 0.5% decline in industrial production during February, and its 0.7% annualized rate of decline over the past six months, will buttress views that the US economy is in recession. However, falling industrial production does not necessarily signal recession. Since November 2001, the six-month annualized change in production has fallen into negative territory four times – 2003, 2005, early 2007, and now. None of the previous periods signaled the end of the expansion. We conclude that this is true today as well. Inventories remain razor thin, consumer spending continues to expand, interest rates are extremely low, exports are booming, and productivity continues to grow strongly. We continue to believe that the extended nature of the Fed's rate cuts have caused some businesses and consumers to put off decisions until they feel rates have bottomed. With that time coming closer every day, we suspect that the economy is more likely to surprise on the upside in the months ahead rather than the downside as has been true so often in recent months.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Feb-08	Jan-08	Dec-07	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Industrial Production	-0.5%	0.1%	0.2%	-0.7%	-0.7%	1.1%
Manufacturing	-0.3%	0.0%	0.2%	-0.3%	-0.7%	1.7%
Motor Vehicles and Parts	-1.0%	-1.6%	0.1%	-9.8%	-11.6%	-2.6%
Ex Motor Vehicles and Parts	-0.3%	0.1%	0.2%	0.0%	0.2%	1.9%
Mining	0.4%	-1.3%	0.6%	-1.2%	4.4%	2.7%
Utilities	-3.7%	2.2%	0.3%	-5.4%	-6.4%	-5.4%
Business Equipment	0.1%	0.1%	0.8%	4.2%	3.6%	4.9%
Consumer Goods	-0.6%	0.2%	0.4%	-0.4%	-2.0%	-0.8%
High-Tech Equipment	1.1%	0.3%	0.6%	8.5%	12.8%	17.3%
Total Ex. High-Tech Equipment	-0.6%	0.1%	0.2%	-1.5%	-1.5%	0.2%
Cap Utilization (Total)	80.9	81.5	81.6	3-mo Average	6-mo Average	12-mo Average
Manufacturing	79.3	79.6	79.8	81.3	81.5	81.6
				79.6	79.8	80.1

Source: Federal Reserve Board