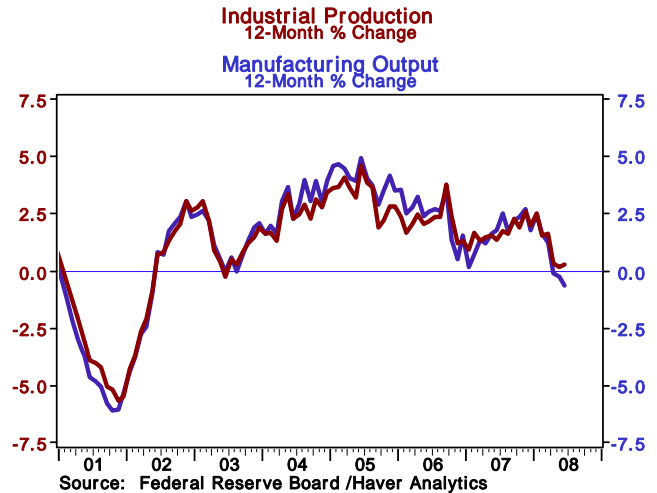


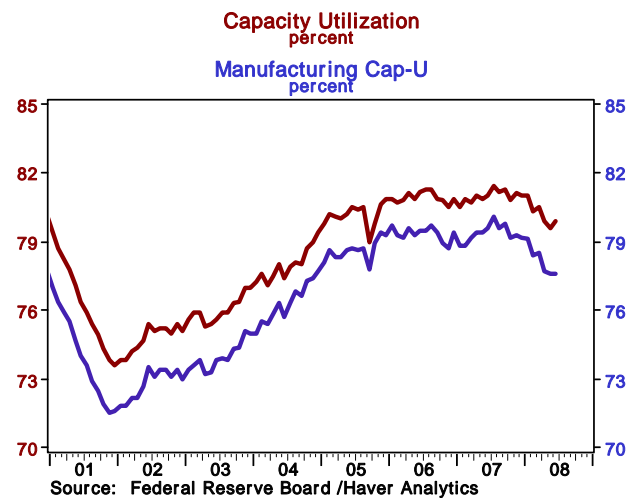
JUNE INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.5% in June versus a consensus expected increase of 0.1%. Production is up 0.3% versus a year ago.
- Manufacturing output was up 0.2% in June, with all of the gain attributable to a 5.4% increase in motor vehicles and parts due to the end of the American Axle strike. Manufacturing production outside the auto sector fell 0.1%. The production of high-tech equipment grew 1.8% in June and is up 23.6% versus last year.
- Overall capacity utilization rose to 79.9% in June, a full rebound from the decline in May. Manufacturing capacity utilization was unchanged from an upwardly revised 77.6% in May.



Implications: Due to the end of the American Axle strike, the production of motor vehicles and parts rebounded steeply in June, with the second largest one-month gain since 1999. This caused an increase of 0.2% in overall manufacturing output, the first gain in three months. Meanwhile output increased 1.1% at mines and 2.1% at utilities, pushing total industrial output up 0.5%, the largest gain in eleven months. Industrial production had been weak in recent months but the slowdown resembled the period of sluggish growth we experienced in early 2003, not a full blown recession. Most likely we have already seen the worst of the slowdown for industrial production and output will be upward in the months ahead. If the Federal Reserve were to start raising rates to fight inflation we would also become more bullish on economic growth in the near term, as businesses would have an incentive to accelerate activity to avoid even higher rates down the road.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-08	May-08	Apr-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.5%	-0.2%	-0.7%	-1.8%	-1.2%	0.3%
Manufacturing	0.2%	0.0%	-1.0%	-2.8%	-2.1%	-0.4%
Motor Vehicles and Parts	5.4%	0.6%	-6.7%	-4.0%	-15.9%	-12.0%
Ex Motor Vehicles and Parts	-0.1%	-0.1%	-0.5%	-2.7%	-1.4%	0.2%
Mining	1.1%	0.3%	-0.4%	3.9%	1.5%	3.8%
Utilities	2.1%	-2.1%	0.4%	1.5%	4.9%	4.0%
Business Equipment	0.2%	0.2%	-1.7%	-5.1%	-1.4%	1.6%
Consumer Goods	0.8%	-0.2%	-1.0%	-1.9%	-1.3%	-0.8%
High-Tech Equipment	1.8%	0.1%	1.3%	14.0%	18.3%	23.6%
Total Ex. High-Tech Equipment	0.4%	-0.2%	-0.8%	-2.6%	-2.0%	-0.7%
Cap Utilization (Total)	79.9	79.6	79.9	3-mo Average	6-mo Average	12-mo Average
				79.8	80.2	80.7
Manufacturing	77.6	77.6	77.7	3-mo Average	6-mo Average	12-mo Average
				77.6	78.2	78.8

Source: Federal Reserve Board

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