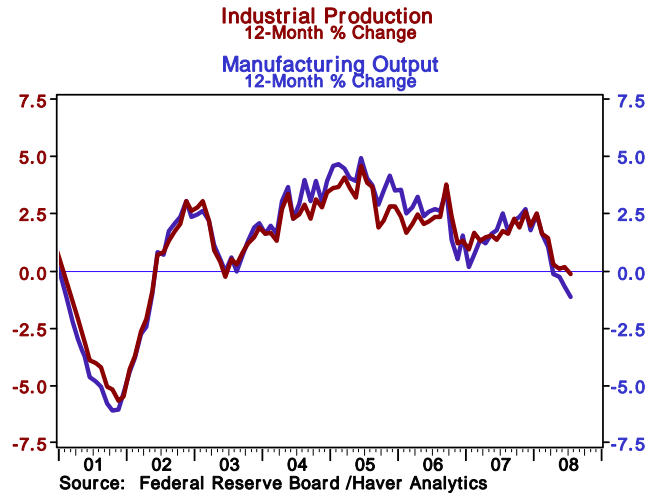


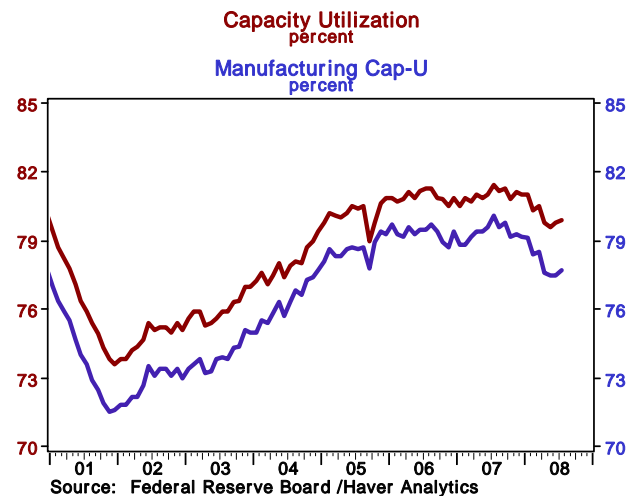
## JULY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.2% in July. The consensus had expected zero change. Production is down 0.2% versus a year ago, but up at a 1.8% annual rate in the past three months.
- Manufacturing output was up 0.4% in July, with about half the gain attributable to a 3.6% increase in motor vehicles and parts, continuing the rebound from the sharp strike-related declines earlier this year. Manufacturing production outside the auto sector increased 0.2%. The production of high-tech equipment grew 0.3% in July and is up 17.4% versus last year.
- Overall capacity utilization ticked up to 79.9% in July. Manufacturing capacity utilization rose to 77.7% versus 77.5% in June.



**Implications:** After declining earlier in 2008 – in large part due to auto strikes and oil price increases – industrial production is now up two months in a row. Manufacturing production increased 0.4% in July, the largest monthly gain in the past year. Despite these gains, total industrial output (manufacturing, utilities, and mines, combined) was revised downward for prior months and is now down 0.2% versus last year. However, the decline we have experienced in the past year is very small compared to what happens in recessions. Instead, the slowdown resembles the period of sluggish growth we experienced in early 2003, not a full blown recession. In the months ahead, we expect improving comparisons to a year ago. In our view, today’s report gives the Federal Reserve more room to address inflation by starting to raise short term interest rates.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-08	Jun-08	May-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.2%</b>	0.4%	-0.2%	1.8%	-1.4%	-0.2%
<b>Manufacturing</b>	<b>0.4%</b>	0.1%	0.1%	2.5%	-1.6%	-0.9%
<b>Motor Vehicles and Parts</b>	<b>3.6%</b>	4.8%	0.6%	42.1%	-7.5%	-10.4%
<b>Ex Motor Vehicles and Parts</b>	<b>0.2%</b>	-0.2%	0.0%	0.0%	-1.4%	-0.4%
<b>Mining</b>	<b>1.0%</b>	0.9%	0.0%	7.5%	5.1%	4.2%
<b>Utilities</b>	<b>-1.8%</b>	2.2%	-2.3%	-7.4%	-4.5%	2.6%
<b>Business Equipment</b>	<b>0.8%</b>	0.2%	0.2%	5.0%	-0.5%	1.2%
<b>Consumer Goods</b>	<b>0.3%</b>	0.9%	-0.2%	3.8%	-1.8%	-1.1%
<b>High-Tech Equipment</b>	<b>0.3%</b>	0.5%	-0.2%	2.3%	14.3%	17.4%
<b>Total Ex. High-Tech Equipment</b>	<b>0.2%</b>	0.5%	-0.2%	1.9%	-2.0%	-0.9%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>79.9</b>	79.8	79.6	79.8	80.0	80.5
<b>Manufacturing</b>	<b>77.7</b>	77.5	77.5	77.6	77.9	78.6

Source: Federal Reserve Board