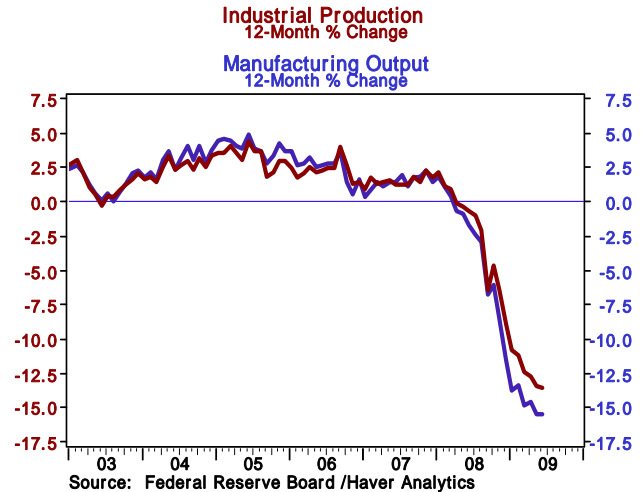


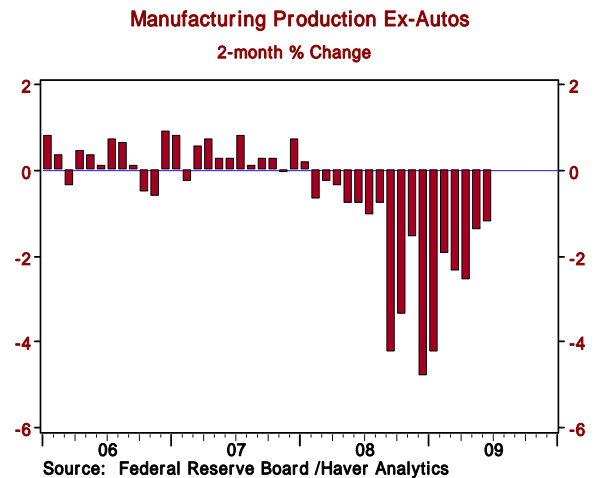
# JUNE INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- Industrial production declined 0.4% in June, beating the consensus expected decline of 0.6%. Production is down 13.6% versus a year ago, but the monthly loss in June was the smallest since late last year.
- Manufacturing output fell 0.5% in June. Motor vehicle/parts production fell 2.7% while output in the rest of the manufacturing sector declined 0.4%.
- The production of high-tech equipment declined 1.0% in June. High tech output is down 21.7% versus last year but down at only a 10.4% annual rate in the past three months.
- Overall capacity utilization fell to 68.0% in June from 68.2% in May. Manufacturing capacity utilization declined to 64.6% versus 64.9% in May.



**Implications:** Industrial production was slightly higher than the consensus expected in June and the decline was the smallest in eight months. Typically, industrial production does not increase until 1-3 months after recessions come to an end. We are likely to get that increase in July or August as auto companies, witnessing large inventory reductions for cars and trucks, are ramping up production substantially this summer. Meanwhile, the drag from the non-auto portion of manufacturing is diminishing. In other words, we expect to get further confirmation within the next two months that the recession is already over. In other news this morning, the Empire State index, a measure of manufacturing activity in New York, increased to -0.6 in July versus a consensus expected -5.0 and -9.4 in June. The overall reading is the highest since April 2008. The strongest parts of the report were the shipments index, now at +11.0 versus -4.8 in June, and new orders, now at +5.9 versus -8.2 in June. The weakest part of the report was the inventories index, now at -36.5, the lowest so far this recession. These inventory reductions are paving the way for higher production in the months ahead.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-09	May-09	Apr-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>-0.4%</b>	-1.2%	-0.7%	-9.1%	-13.2%	-13.6%
<b>Manufacturing</b>	<b>-0.5%</b>	-1.2%	-0.6%	-8.4%	-12.6%	-15.4%
<b>Motor Vehicles and Parts</b>	<b>-2.7%</b>	-8.2%	-1.1%	-39.0%	-47.6%	-42.0%
<b>Ex Motor Vehicles and Parts</b>	<b>-0.4%</b>	-0.8%	-0.6%	-7.1%	-10.9%	-13.9%
<b>Mining</b>	<b>-0.4%</b>	-2.0%	-2.1%	-16.7%	-17.4%	-10.3%
<b>Utilities</b>	<b>0.7%</b>	-1.3%	-0.3%	-3.7%	-10.8%	-3.9%
<b>Business Equipment</b>	<b>-0.8%</b>	-1.9%	-1.9%	-16.9%	-23.9%	-17.8%
<b>Consumer Goods</b>	<b>-0.3%</b>	-1.0%	-0.5%	-7.1%	-8.0%	-7.9%
<b>High-Tech Equipment</b>	<b>-1.0%</b>	-2.6%	0.9%	-10.4%	-9.8%	-21.7%
<b>Total Ex. High-Tech Equipment</b>	<b>-0.3%</b>	-1.2%	-0.9%	-9.1%	-13.3%	-13.3%
<b>Cap Utilization (Total)</b>	<b>68.0</b>	68.2	69.0	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>64.6</b>	64.9	65.6	68.4	69.4	72.5
				65.0	65.9	69.3

Source: Federal Reserve Board