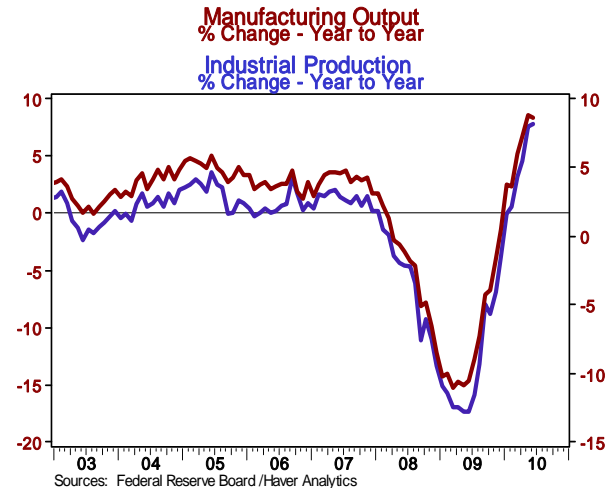


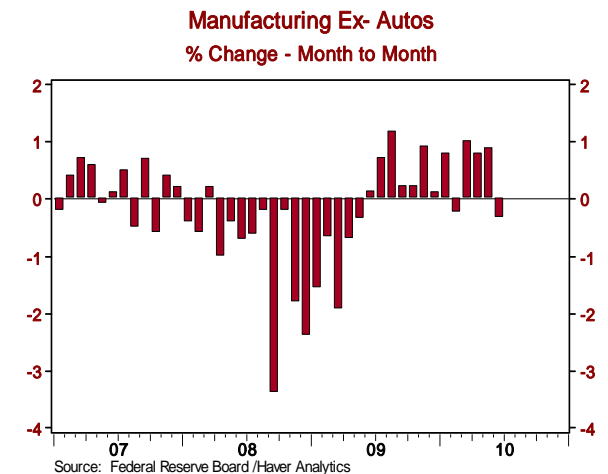
JUNE INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.1% in June, beating a consensus expected decline of 0.1%. Production is up at a 6.6% annual rate in the past six months.
- Manufacturing output declined 0.4% in June but is up at a 7.2% annual rate in the past six months. Auto output, which is volatile from month to month, fell 2.0% in June after spiking up 5.5% in May. Ex-autos, manufacturing output declined 0.3% in June but is up at a 6.0% annual rate in the past six months.
- The production of high-tech equipment increased 1.2% in June and is up at a 17.8% annual rate in the past six months.
- Overall capacity utilization was unchanged at 74.1% in June and is up 5.9 percentage points from the low a year ago. This is the fastest one-year increase since 1983-84. Manufacturing capacity use declined to 71.4%.



Implications: Even during periods of healthy economic growth, manufacturing output declines about three times per year. What is important to look at is the underlying trend. So even though manufacturing declined 0.4% in June, we recognize that manufacturing was up 0.8% and 1.0%, respectively, in April and May and that in the past six months (including the drop in June) it has increased at a 7.2% annual rate. In particular, note that while the output of consumer goods has increased at a 2.8% rate in the past six months, the output of business equipment has increased at a 13.5% rate. In other words, with cash-rich companies in a position to spend on equipment (even if still reluctant to engage in commercial construction), consumer activity can grow more slowly than the overall economy and we can still experience solid economic growth. In other news this morning, regional manufacturing surveys suggest continued growth, but not quite as rapid as in recent months. The Empire State index, which covers New York, declined to +5.1 in July from +19.6 in June. The Philadelphia Fed index declined to +5.1 in July from +8.0 in June.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-10	May-10	Apr-10	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.1%	1.3%	0.3%	6.8%	6.6%	8.2%
Manufacturing	-0.4%	1.0%	0.8%	6.4%	7.2%	8.9%
Motor Vehicles and Parts	-2.0%	5.5%	-1.2%	9.0%	10.7%	52.5%
Ex Motor Vehicles and Parts	-0.3%	0.9%	0.8%	5.5%	6.0%	6.5%
Mining	0.4%	-0.3%	1.7%	7.5%	13.0%	8.5%
Utilities	2.8%	5.5%	-4.3%	15.8%	3.0%	7.2%
Business Equipment	0.9%	1.4%	1.8%	17.6%	13.5%	11.4%
Consumer Goods	-0.5%	1.9%	-0.9%	2.2%	2.8%	6.8%
High-Tech Equipment	1.2%	1.5%	1.4%	17.8%	17.8%	19.8%
Total Ex. High-Tech Equipment	0.0%	1.3%	0.2%	6.4%	6.2%	7.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	74.1	74.1	73.1	73.8	73.1	71.8
Manufacturing	71.4	71.7	70.9	71.3	70.7	69.4

Source: Federal Reserve Board