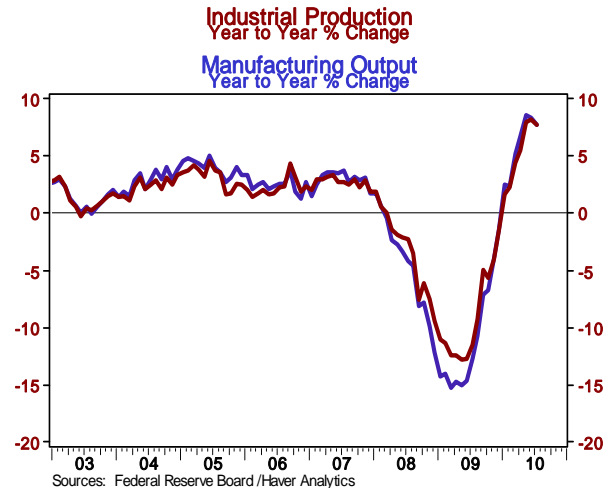


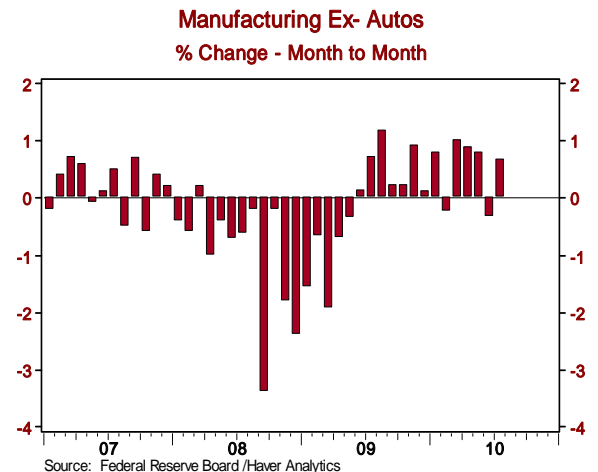
JULY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 1.0% in July, beating a consensus expected increase of 0.5%. Production is up at a 6.5% annual rate in the past six months.
- Manufacturing output increased 1.1% in July and is up at a 7.1% annual rate in the past six months. Auto output, which is volatile from month to month, spiked up 9.9% in July after falling 2.5% in June. Ex-autos, manufacturing output increased 0.7% in July and is up at a 5.7% annual rate in the past six months.
- The production of high-tech equipment increased 0.9% in July and is up at a 13.6% annual rate in the past six months.
- Overall capacity utilization increased to 74.8% in July and is up 5.7 percentage points from a year ago. Manufacturing capacity use increased to 72.2%.



Implications: After falling last month, manufacturing roared back in July, increasing 1.1%. Industrial output was strong across the board, with manufacturing climbing due to both autos and widespread gains elsewhere, and with mining and utilities making positive contributions as well. We believe rapid gains in production will continue. Auto sales, although up 20% from the first half of 2009, are still significantly below what’s needed to keep up with scrappage rates and the rise in the driving-age population. In addition, after climbing 11.7% in the past year, more gains in business equipment are coming. In the past year, industrial capacity utilization has climbed from a low of 68.3% back to 74.8%. That climb is mostly due to a rebound in output, but also partly due to falling capacity as the capital stock depreciates. As the economy continues to grow, capacity utilization could be pushed over 80% in the next 12 months, which is higher than the average for the past 30 years. In other recent news, the Empire State index, a measure of manufacturing in New York, increased to 7.1 in August from 5.1 in July, hinting at more rapid growth ahead.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-10	Jun-10	May-10	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Industrial Production	1.0%	-0.1%	1.3%	9.5%	6.5%	7.7%
Manufacturing	1.1%	-0.4%	1.0%	7.3%	7.1%	8.2%
Motor Vehicles and Parts	9.9%	-2.5%	5.7%	64.8%	23.9%	32.6%
Ex Motor Vehicles and Parts	0.7%	-0.3%	0.8%	4.5%	5.7%	6.4%
Mining	1.0%	0.2%	-0.8%	1.6%	10.0%	7.5%
Utilities	0.1%	2.3%	5.9%	38.0%	2.4%	8.3%
Business Equipment	1.8%	0.5%	1.4%	16.3%	13.8%	11.7%
Consumer Goods	1.2%	-0.6%	2.5%	12.7%	3.0%	6.5%
High-Tech Equipment	0.9%	0.3%	0.7%	7.9%	13.6%	15.3%
Total Ex. High-Tech Equipment	1.0%	-0.1%	1.3%	9.1%	6.1%	7.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	74.8	74.1	74.1	74.3	73.6	72.3
Manufacturing	72.2	71.4	71.7	71.8	71.1	69.9

Source: Federal Reserve Board