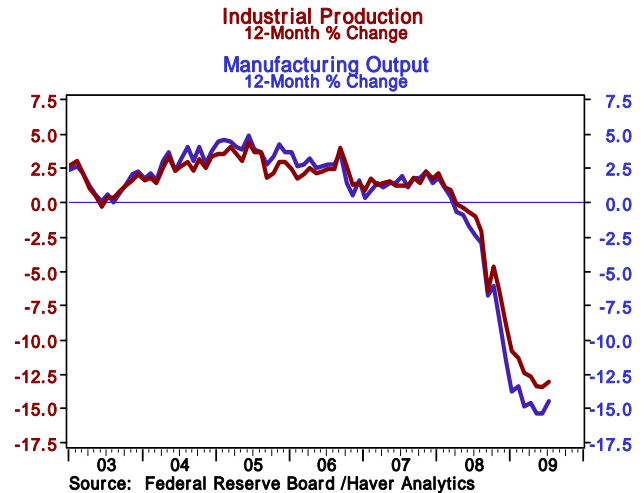


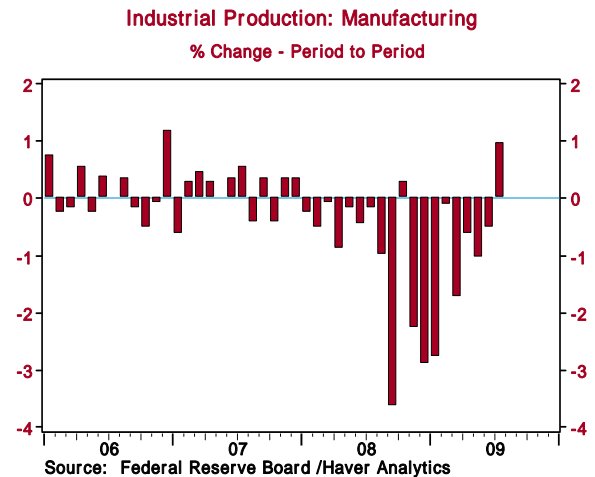
JULY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.5% in July, slightly beating the consensus expected gain of 0.4%. Production is down 13.0% versus a year ago, but is up versus two months ago, the first such gain since January 2008.
- Manufacturing output increased 1.0% in July. Most, but not all, of the increase was auto-related, as motor vehicle/parts production rose 20.0%. Manufacturing ex-autos increased 0.2%, the first increase in nine months.
- The production of high-tech equipment rose 0.4% in July. High tech output is down 20.2% versus last year but has not declined since May.
- Overall capacity utilization increased to 68.5% in July from 68.1% in June. Manufacturing capacity utilization rose to 65.4% versus 64.7% in June.



Implications: Industrial production beat consensus expectations in July and not all of the increase was due to autos. Overall manufacturing increased 1% and manufacturing ex-autos increased 0.2%. Typically, industrial production does not increase until 1-3 months after recessions come to an end, so today's figures suggest the economy bottomed in May and is now recovering. We expect further gains in output in the months ahead, as auto companies continue to ramp up production (given reduced car and truck inventories) and the recovery spreads to other sectors. The production of high-tech equipment was up 0.4% in July and has not declined in either of the past two months. During the business cycle that ended with the recent recession, businesses spent a relatively small share of their profits on equipment and software, despite increasingly rapid rates of obsolescence. This suggests that once the current economic recovery matures, firms have a great deal of pent up demand for both industrial and high-tech machinery.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-09	Jun-09	May-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.5%	-0.4%	-1.1%	-4.1%	-8.0%	-13.0%
Manufacturing	1.0%	-0.5%	-1.0%	-2.5%	-5.6%	-14.3%
Motor Vehicles and Parts	20.0%	-2.3%	-7.8%	36.2%	40.1%	-31.7%
Ex Motor Vehicles and Parts	0.2%	-0.5%	-0.7%	-4.0%	-7.7%	-13.3%
Mining	0.7%	-0.9%	-1.2%	-5.7%	-15.1%	-11.4%
Utilities	-2.5%	0.9%	-2.0%	-13.5%	-15.3%	-4.9%
Business Equipment	0.5%	-0.7%	-2.0%	-8.6%	-17.0%	-17.3%
Consumer Goods	0.7%	-0.6%	-1.0%	-3.6%	-3.2%	-7.2%
High-Tech Equipment	0.4%	0.0%	-2.5%	-8.5%	-7.2%	-20.2%
Total Ex. High-Tech Equipment	0.5%	-0.4%	-1.2%	-4.2%	-8.2%	-12.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	68.5	68.1	68.3	68.3	69.0	71.6
Manufacturing	65.4	64.7	65.0	65.0	65.6	68.5

Source: Federal Reserve Board