

Industrial production increased 0.5% in July for the first undistorted monthly gain since December 2007. Production increased 1.3% last October in a partial recovery from hurricane damage in the previous month. Production was down 13.1% from a year earlier. The peak-to-trough drop was -17.4% – the largest since at least the late 1940s. Utility output fell 2.4% in July due to relatively mild weather. Manufacturing production increased 1.0%.

The increase in production points to July as the end of the recession. The official determination will not be announced by the National Bureau of Economic Research until perhaps as late as next spring or summer. The timing of the announcement will depend on the strength of any recovery in the overall economy coming months. Industrial production has been a reliable indicator of the end of the recession in the past because the cyclical trough has occurred within one month of each of the ten previous business cycle recessions dating back to 1948-49.

The July gain in manufacturing production owed much to the rebound in motor vehicle production. Light-vehicle production increased from 3.97 million units at an annual rate in June to a 5.74 million unit rate, lifting production by 20.1%. In a break with recent months, however, production increased in a number of industries, including wood products (+0.7%), nonmetallic mineral products (+2.3%), primary metal (+3.3%), computer and electronic products (+0.6%), aerospace (+0.9%), and plastics and rubber products (+0.9%).

Meanwhile, retail sales remained flat. Sales decreased 0.1% in July to 8.3% below the year earlier level. Excluding cars and autos, retail sales fell 0.4% for the fifth straight monthly decline to 4.6% below the year earlier level. Even so, retail sales would rise at an annual rate of 2.5% in the third quarter if they stayed at the July level in August and September.

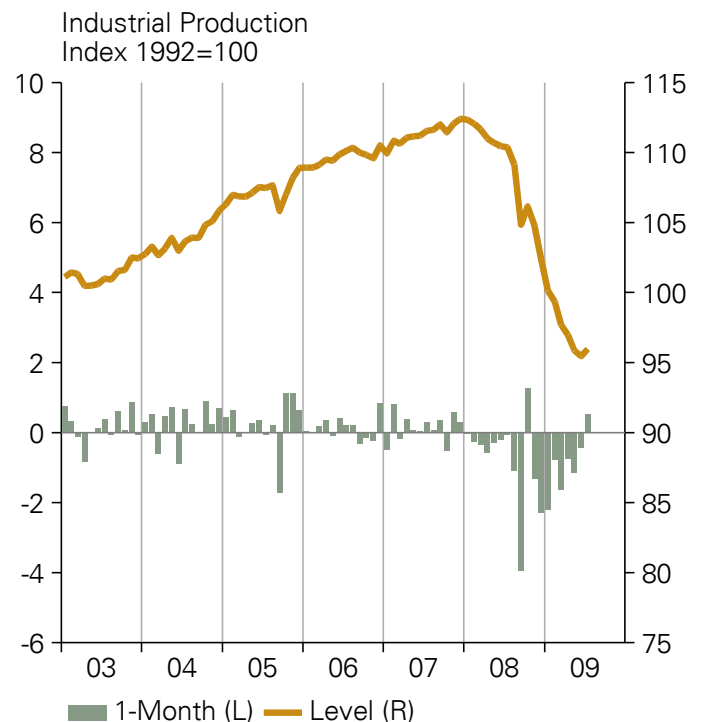
The federal rebates for new car purchases pushed motor vehicle sales to an annual rate of 11.2 million units in July from 9.2 million units in June. The program continued to boost sales in August. Outside of autos, most categories posted declines, led by sales at sporting goods, hobby, book & music stores (-1.9%), electronics and appliance

**The July increase in industrial production signals the end of recession even as retail sales remain flat. Consumer prices are set to accelerate.**

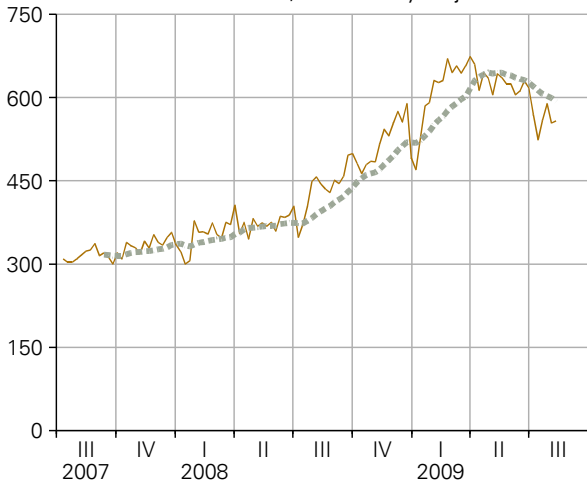
stores (-1.4%), and furniture and home furnishing stores (-0.9%).

Finally, consumer prices were unchanged from June to July after an energy-induced 0.7% rise in June. Compared with a year earlier, the CPI was down 1.9% – the fastest year-over-year decrease since 1950. Our forecasting model says that the year-over-year rate of change reached its low point in July and will be 2.5% to 3.0% a year from now.

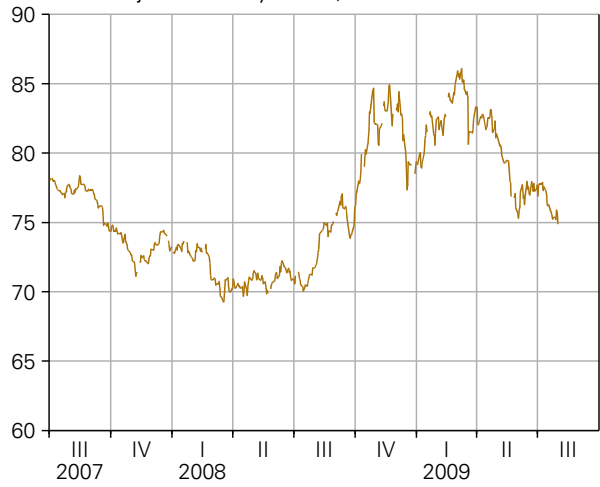
Jim Coons



Initial Claims for Unemployment Insurance  
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate  
FRB Major Currency Index, 1973 = 100



Price of Oil  
West Texas Int, \$/bbl



Price of Gold  
London PM Fixing, \$/oz



S&P 500 Stock Prices  
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations  
MBA Purchase Index 3/16/90=100 SA

