

The Fed's policy-making committee will meet June 24-25. We expect no change in the federal funds rate target. While concerned about faster inflation becoming factored into expectations, policy-makers will no doubt take note of continuing signs of economic weakness.

Industrial production decreased 0.2% in May, following a 0.7% decline in April, for the third decline in four months. The key culprit was a weather-driven decrease of 1.8% in utility output, as May was milder than usual across much of the country.

Compared with a year earlier, industrial production was down 0.1% – the first year-over-year decline since early in the recovery from the 2001 recession. Capacity utilization fell to the lowest level since early 2004, suggesting that business investment spending will slow.

Manufacturing production was unchanged in May, after a decline of 0.9% in April. The see-saw pattern in recent months has left manufacturing output 0.3% below the year earlier level. Outside of high-tech and motor vehicles, manufacturing output fell 0.2%.

The bounce-back in motor vehicle production reflected the end of the strike at a key supplier to General Motors, but left output 14.7% below the year earlier level. Autos were assembled at a seasonally adjusted annual pace of 8.6 million units in May. That was up from a pace of 8.4 million units in April, but still well below 10.8 million in 2007 and 11.3 million in 2006.

Housing starts fell 3.3% in May to 975,000 units at a seasonally adjusted annual pace – the slowest rate since March 1991, the final month of the 1990-91 recession. Single-family starts fell by 1.0% and multi-family starts were down 8.0%. New permits for single-family homes decreased by 4.0%, indicating that housing construction will remain under downward pressure in the months ahead.

The Housing Market Index, compiled by the National Association of Home Builders, deteriorated to match its lowest level on record in June. The index measures builder sentiment regarding current sales, sales expectations, and prospective buyer traffic. The index

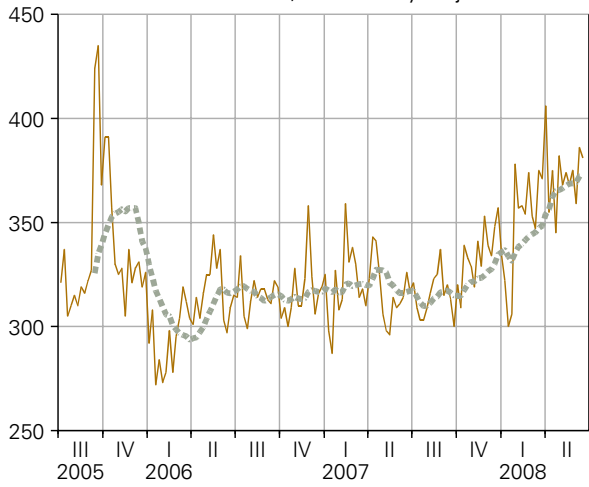
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increased in the Midwest to its highest level of the year. Nonetheless, fixed mortgage rates have moved up by more one-half percentage point since the low at the end of March, increasing financing costs.

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

