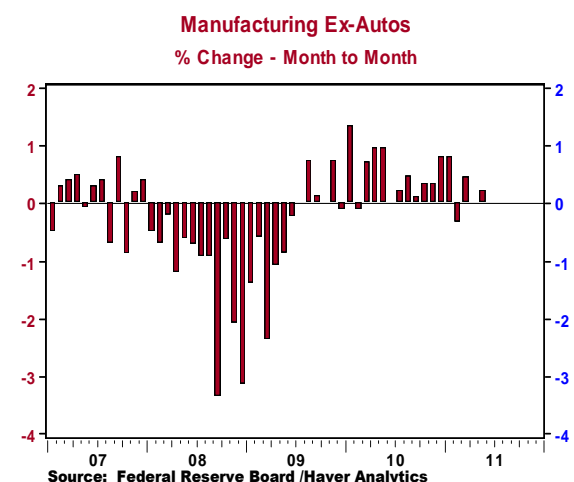
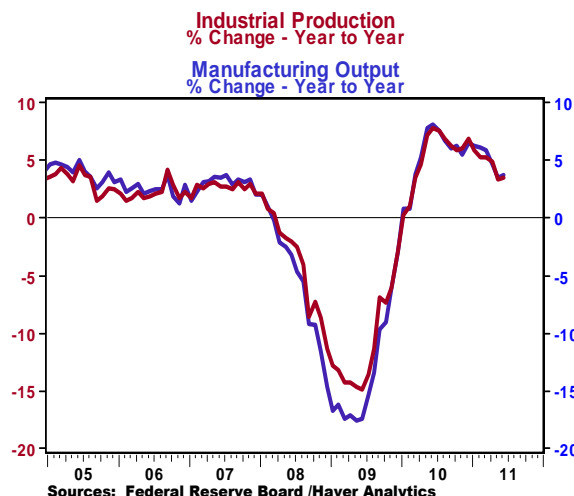


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## June Industrial Production / Capacity Utilization

- Industrial production increased 0.2% in June, coming in slightly below the consensus expected gain of 0.3%. Including revisions to prior months, production rose 0.1%. Output is up 3.4% in the past year.
- Manufacturing, which excludes mining/utilities, was unchanged in June. Auto production fell 2.0% in June. Non-auto manufacturing increased 0.1%. Auto production is up 2.5% versus a year ago while non-auto manufacturing has risen 3.8%.
- The production of high-tech equipment increased 0.6% in June and is up 10.0% versus a year ago.
- Overall capacity utilization was unchanged at 76.7% in June. Manufacturing capacity use was unchanged at 74.4%.

**Implications:** Industrial production grew modestly in June but is going to surge sharply in July as automakers start to recover from the supply-chain disruptions coming from Japan. In the past three months, auto and light truck assemblies have dropped at a 39% annual rate, resulting in razor-thin inventories and slower sales (as auto companies and dealers curbed incentives). The reversal of that problem is going to generate eye-grabbing and positive headlines in the next few months. Since the multiple disasters that hit Japan, we have been following manufacturing production *excluding autos* to assess the underlying trend – even though some of these manufacturers were also temporarily hurt by the supply-chain problems. That production increased 0.1% in June, the most since the disasters hit in March, and was up 3.8% versus a year ago. In addition, we expect business investment in equipment to accelerate. Corporate profits and cash on the balance sheets of non-financial companies are at record highs. Meanwhile, companies can fully expense these purchases for tax purposes through year-end. In other news this morning on the manufacturing sector, the Empire State index, a measure of manufacturing activity in New York, increased to -3.8 in July from -7.8 in June. This is a smaller gain than the consensus expected but we expect better regional survey numbers where the auto industry is more prominent.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-11	May-11	Apr-11	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
<b>Industrial Production</b>	0.2%	-0.1%	-0.1%	0.0%	1.1%	3.4%
<b>Manufacturing</b>	0.1%	0.0%	-0.4%	-1.3%	2.7%	4.1%
<b>Motor Vehicles and Parts</b>	-2.0%	-0.4%	-6.5%	-30.5%	2.9%	2.5%
<b>Ex Motor Vehicles and Parts</b>	0.1%	0.1%	0.0%	0.9%	2.2%	3.8%
<b>Mining</b>	0.6%	0.7%	0.3%	6.3%	2.7%	6.1%
<b>Utilities</b>	0.9%	-2.0%	1.3%	0.8%	-7.8%	-1.5%
<b>Business Equipment</b>	-0.7%	1.2%	-0.2%	0.8%	5.0%	7.7%
<b>Consumer Goods</b>	0.0%	-0.2%	-0.1%	-1.3%	-0.6%	1.4%
<b>High-Tech Equipment</b>	0.6%	0.5%	0.2%	5.2%	6.6%	10.0%
<b>Total Ex. High-Tech Equipment</b>	0.1%	0.0%	-0.2%	-0.4%	0.9%	3.1%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	76.7	76.7	76.8	76.7	76.8	76.3
<b>Manufacturing</b>	74.4	74.4	74.4	74.4	74.5	73.7

Source: Federal Reserve Board