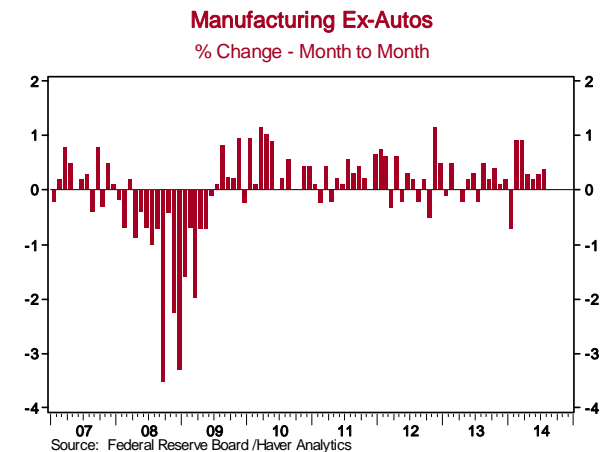
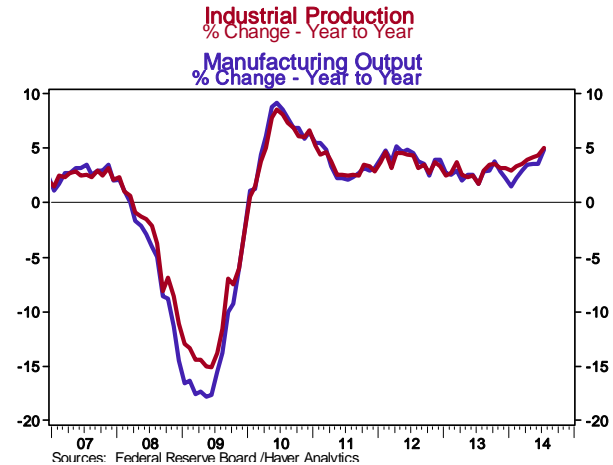


July Industrial Production / Capacity Utilization

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- Industrial production increased 0.4% in July, beating the consensus expected gain of 0.3%. Production is up 5.0% in the past year.
- Manufacturing, which excludes mining/utilities, increased 1.1% in July coming in well above the consensus expected gain of 0.4%. Auto production surged 10.1% in July, while non-auto manufacturing rose 0.4%. Auto production is up 22.0% versus a year ago while non-auto manufacturing is up 3.9%.
- The production of high-tech equipment increased 1.3% in July and is up 8.3% versus a year ago.
- Overall capacity utilization increased to 79.2% in July from 79.1% in June. Manufacturing capacity rose to 77.8% in July from 77.2% in June.

Implications: A very strong report out of the industrial sector today, led by a surge by automakers. Overall, industrial production rose a healthy 0.4% in July, coming in slightly above consensus expectations and growing at the fastest pace in five months. However, the overall 0.4% gain was held down by a steep 3.5% drop in utility output, due to a relatively mild July. Taking out utilities and mining gives us manufacturing, which boomed 1.1% in July. Autos led the way, increasing 10.1%, the largest monthly gain since July 2009, back during cash-for-clunkers. But even outside the auto sector, manufacturing grew a solid 0.4%. We expect continued robust growth in the industrial sector in the year ahead. The housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. In particular, note that the output of high-tech equipment is up 8.3% from a year ago and up at a 17.3% annual rate in the past three months, signaling companies' willingness to upgrade aging equipment from prior years. Capacity utilization now stands at 79.2% in July, higher than the average of 78.9% over the past twenty years. Further gains in production in the year ahead will push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. The bottom line is that today's data, which show declining "slack," will help those at the Federal Reserve who want to raise short-term rates earlier rather than later. In other recent news, new claims for unemployment insurance increased 21,000 last week to 311,000. Continuing claims rose 25,000 to 2.54 million. It's still early, but plugging these figures into our models suggests August payrolls are increasing 205,000 nonfarm and 195,000 in the private sector.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-14	Jun-14	May-14	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.4%	0.4%	0.3%	4.7%	6.2%	5.0%
Manufacturing	1.1%	0.3%	0.4%	7.3%	8.9%	5.3%
Motor Vehicles and Parts	10.1%	0.0%	1.9%	58.5%	44.8%	22.0%
Ex Motor Vehicles and Parts	0.4%	0.3%	0.2%	3.7%	6.3%	3.9%
Mining	0.3%	1.3%	0.5%	9.1%	12.8%	8.6%
Utilities	-3.5%	-0.7%	0.1%	-15.3%	-18.4%	-1.0%
Business Equipment	1.3%	-0.2%	0.7%	7.4%	11.4%	7.0%
Consumer Goods	0.4%	0.2%	-0.4%	0.8%	3.8%	4.2%
High-Tech Equipment	1.3%	0.5%	2.3%	17.3%	16.5%	8.3%
Total Ex. High-Tech Equipment	0.4%	0.4%	0.3%	4.4%	6.0%	4.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	79.2	79.1	79.0	79.1	79.0	78.6
Manufacturing	77.8	77.2	77.1	77.4	77.1	76.6

Source: Federal Reserve Board