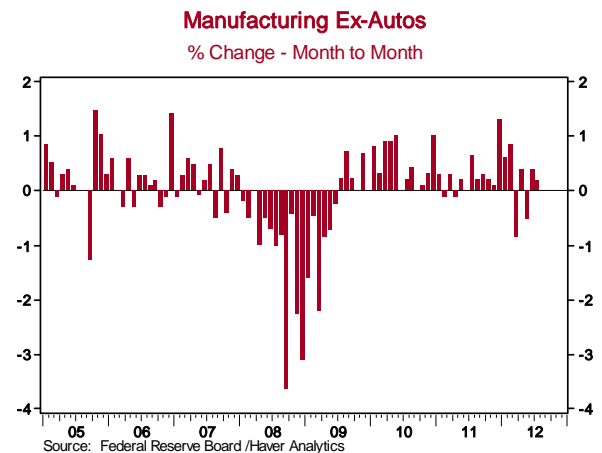
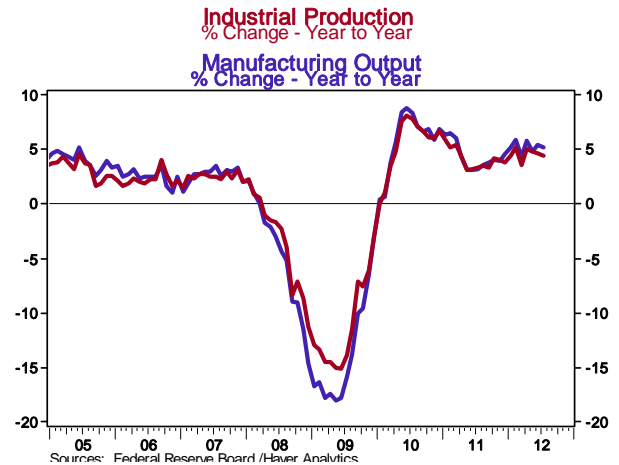


## July Industrial Production / Capacity Utilization

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- Industrial production rose 0.6% in July versus a consensus expected gain of 0.5%. Production is up 4.4% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.5% in July (0.4% including slight downward revisions to prior months). Auto production rose 3.3% in July while non-auto manufacturing gained 0.2%. Auto production is up 26.5% versus a year ago while non-auto manufacturing is up 3.4%.
- The production of high-tech equipment rose 1.5% in July, and is up 0.8% versus a year ago.
- Overall capacity utilization moved up to 79.3% in July from 78.9% in June. Manufacturing capacity use rose to 77.8% in July from 77.6% in June.

**Implications:** Today's data on industrial production show the US economy is nowhere close to recession. Rather than stagnating, the economy looks to be stirring out of the soft patch. Overall industrial production rose 0.6% in July and is up 4.4% from a year ago, growing more than twice as fast as real GDP. Some of the gain in July was due to mining and utilities, each of which increased 1.3%. But manufacturing rose 0.5%. The data we watch most closely is manufacturing production, excluding the auto sector. This rose 0.2% in July, is 3.4% above a year ago, and has risen in 10 of the last 12 months. That's a very good track record, given that it usually falls three or four times a year even during normal economic expansions. Today's report stands in stark contrast to the national ISM manufacturing survey that said manufacturing contracted in July. We attribute that gap to negative sentiment – Europe, energy and politics. Given low inventories, particularly in the auto sector, we expect production to keep growing. Capacity utilization rose to 79.3, the highest level since mid-2008. As a result, companies have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments. In other manufacturing news this morning, the Empire State index, a measure of factory activity in New York, fell to -5.9 in August from +7.4 in July. Keep in mind, however, that this is just one of several key regional indexes and the Empire employment sub-index was still a very robust +16.5. In other words, it's not a recession signal. The index was lower in August through October last year when the economy was still growing. The plow horse economy continues to push forward.



<b>Industrial Production Capacity Utilization</b> <i>All Data Seasonally Adjusted</i>	<b>Jul-12</b>	<b>Jun-12</b>	<b>May-12</b>	<b>3-mo % Ch annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Industrial Production</b>	<b>0.6%</b>	0.1%	0.1%	3.3%	2.9%	4.4%
<b>Manufacturing</b>	<b>0.5%</b>	0.5%	-0.6%	2.1%	2.8%	5.1%
<b>Motor Vehicles and Parts</b>	<b>3.3%</b>	1.8%	-0.9%	18.4%	19.6%	26.5%
<b>Ex Motor Vehicles and Parts</b>	<b>0.2%</b>	0.4%	-0.5%	0.4%	1.1%	3.4%
<b>Mining</b>	<b>1.3%</b>	0.4%	0.2%	7.8%	0.4%	6.1%
<b>Utilities</b>	<b>1.3%</b>	-3.3%	5.3%	13.3%	12.6%	-2.4%
<b>Business Equipment</b>	<b>-0.1%</b>	1.9%	0.3%	8.5%	10.3%	12.4%
<b>Consumer Goods</b>	<b>0.6%</b>	-0.4%	0.9%	4.4%	2.2%	1.8%
<b>High-Tech Equipment</b>	<b>1.5%</b>	1.3%	-0.5%	9.6%	5.8%	0.8%
<b>Total Ex. High-Tech Equipment</b>	<b>0.6%</b>	0.1%	0.1%	3.4%	2.9%	4.5%
<b>Cap Utilization (Total)</b>	<b>79.3</b>	78.9	78.9	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>77.8</b>	77.6	77.3	79.0	78.9	78.3
				77.6	77.7	76.9

Source: Federal Reserve Board