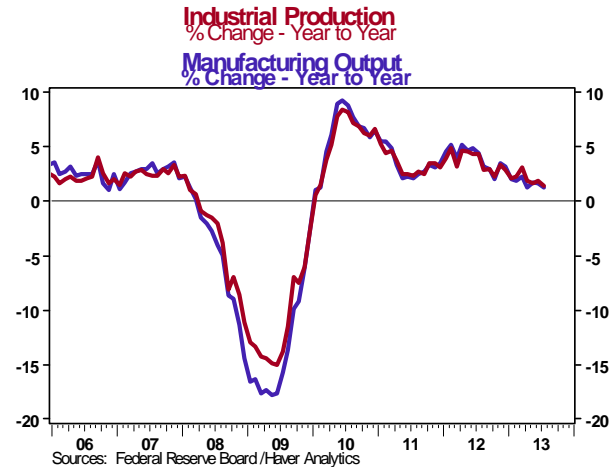


July Industrial Production / Capacity Utilization

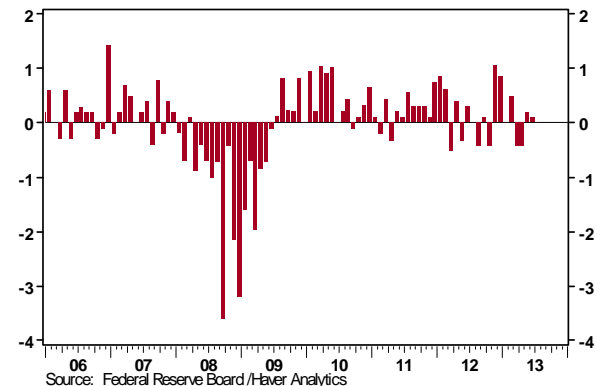
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elss – Economist

- Industrial production was unchanged in July and declined 0.2% including revisions to prior months, coming in below the consensus expected 0.3% gain. Production is up 1.3% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.1% in July (-0.4% including revisions to prior months). Auto production fell 1.7% in July, while non-auto manufacturing was unchanged. Auto production is up 2.5% versus a year ago while non-auto manufacturing is up 1.2%.
- The production of high-tech equipment rose 1.0% in July, and is up 4.9% versus a year ago.
- Overall capacity utilization declined to 77.6% in July from 77.7% in June. Manufacturing capacity use fell to 75.8% in July from 75.9% in June.

Implications: Today's industrial production report was soft, but far from recessionary. Industrial production was unchanged in June, but still up 1.3% from a year ago. Taking out mining and utilities gives us manufacturing. This measure was down 0.1% in July, but still up 1.5% from a year ago. What we have here is more Plow Horse data. Over the past year, the auto sector has led the manufacturing gains, up 2.5%, but even manufacturing outside the auto sector has done OK, up 1.2%. We expect the gap between those two growth rates to continue to narrow in the year ahead, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Overall, we expect production to pick up steam as the housing recovery is still in its very early stages and demand for autos and other durables remains strong. Capacity utilization declined to 77.6% in July but remains not far from the average of 79% in the past 20 years. Gains in production in the year ahead should push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing they have the ability to make these investments. In other manufacturing news this morning, both the Empire State index and Philly Fed index declined in August and lagged consensus expectations, but both still signal expansion in the factory sector. The Empire State index, a measure of manufacturing in New York, declined to +8.2 in August from +9.5 in July; the Philly Fed index, a measure of activity in that region, declined to +9.3 in August from +19.8 in July. On the housing front, the NAHB index, which measures confidence among home builders, rose to 59 in August from 56 in July. This was the highest level since November 2005. Expect more gains in home sales in the months ahead.



Manufacturing Ex-Autos
% Change - Month to Month



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-13	Jun-13	May-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.0%	0.2%	0.0%	0.8%	1.4%	1.3%
Manufacturing	-0.1%	0.2%	0.2%	1.2%	0.6%	1.5%
Motor Vehicles and Parts	-1.7%	1.2%	0.6%	0.4%	5.1%	2.5%
Ex Motor Vehicles and Parts	0.0%	0.1%	0.2%	1.3%	0.0%	1.2%
Mining	2.0%	1.0%	0.1%	13.3%	9.4%	5.7%
Utilities	-2.0%	-0.8%	-1.8%	-16.8%	-0.8%	-3.7%
Business Equipment	0.0%	0.5%	-0.2%	1.2%	4.0%	2.1%
Consumer Goods	-0.5%	0.6%	-0.2%	-0.4%	1.7%	1.3%
High-Tech Equipment	1.0%	-0.2%	1.3%	8.7%	8.1%	4.9%
Total Ex. High-Tech Equipment	0.0%	0.2%	0.0%	0.8%	1.2%	1.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.6	77.7	77.7	77.7	77.9	77.7
Manufacturing	75.8	75.9	75.9	75.9	76.0	75.8

Source: Federal Reserve Board