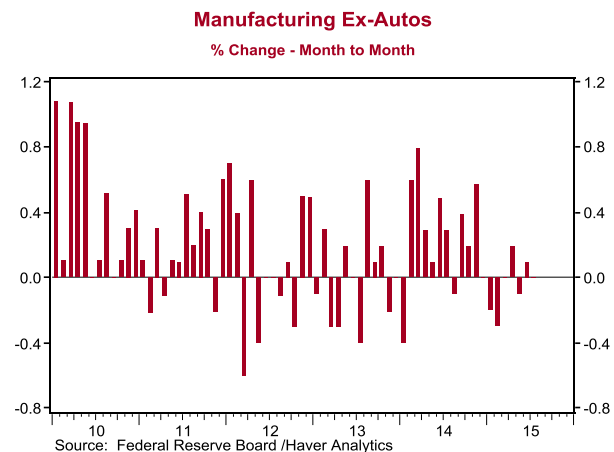
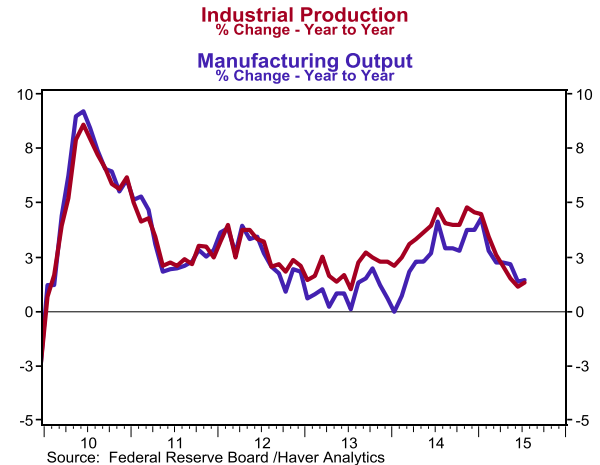


July Industrial Production / Capacity Utilization

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- Industrial production increased 0.6% in July (+0.4% including revisions to prior months), beating the consensus expected increase of 0.3%. Production is up 1.3% in the past year.
- Manufacturing, which excludes mining/utilities, increased 0.8% in July (up 0.7% including revisions to prior months). Auto production rose 10.6% in July, while non-auto manufacturing was unchanged. Auto production is up 9.0% versus a year ago while non-auto manufacturing is up 0.8%. Utility output declined 1.0% in July, while mining increased 0.2%.
- The production of high-tech equipment increased 1.2% in July and is up 0.5% versus a year ago.
- Overall capacity utilization rose to 78.0% in July from 77.7% in June. Manufacturing capacity utilization increased to 76.2% in July.

Implications: Overall industrial production, and manufacturing output in particular, increased in July at the fastest pace so far this year. However, the underlying details were not quite as strong. Industrial production rose 0.6% in July, while manufacturing rose 0.8%. But most of the gain in manufacturing was driven by a 10.6% increase in auto production, which is very volatile from month to month. Manufacturing outside the volatile auto sector, the most useful part of the report, was unchanged in July. Meanwhile, utilities dropped 1.0% while mining rose 0.2%. The gain in mining is interesting because oil prices have continued to slide, but drilling activity may be starting to pick back up. The index for “oil & gas well drilling,” after declining for nine consecutive months, rose 1.3% in July. This may be short lived, but we would not be surprised if drilling did pick back up in some of the more profitable shale areas. Productivity gains in energy production from new technologies continue to drive down costs on almost a daily basis. In some areas this is happening faster than the oil price decline. Overall industrial production and manufacturing ex-autos are up 1.3% and 0.8%, respectively, from a year ago, and the fundamentals favoring further growth remain in place. Companies are sitting on huge cash reserves and profits are close to record highs. Meanwhile, at 78.0%, capacity utilization remains close to the average of 78.6% over the past twenty years, so further gains in production will give companies an incentive to build out plants and buy equipment. Taken as a whole, today’s data are consistent with our current estimate that real GDP grew at a 2% annual rate in the third quarter. The Plow Horse economy remains alive and well.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-15	Jun-15	May-15	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.6%	0.1%	-0.3%	1.5%	-0.2%	1.3%
Manufacturing	0.8%	-0.3%	0.1%	2.3%	1.5%	1.4%
Motor Vehicles and Parts	10.6%	-4.4%	2.4%	37.2%	24.5%	9.0%
Ex Motor Vehicles and Parts	0.0%	0.1%	-0.1%	0.0%	-0.2%	0.8%
Mining	0.2%	0.7%	-2.0%	-4.6%	-8.0%	-2.1%
Utilities	-1.0%	2.3%	-0.6%	2.8%	-2.3%	4.7%
Business Equipment	0.0%	-0.2%	0.8%	2.3%	0.6%	1.0%
Consumer Goods	1.2%	-0.2%	-0.3%	3.1%	1.7%	2.3%
High-Tech Equipment	1.2%	0.6%	-0.9%	3.8%	-0.2%	0.5%
Total Ex. High-Tech Equipment	0.6%	0.1%	-0.3%	1.5%	-0.2%	1.3%
Cap Utilization (Total)	78.0	77.7	77.7	3-mo Average	6-mo Average	12-mo Average
Manufacturing	76.2	75.7	76.0	77.8	78.0	78.3
				76.0	75.9	75.9

Source: Federal Reserve Board