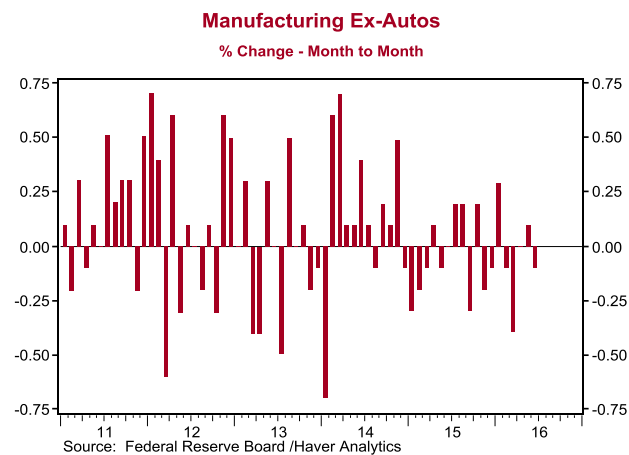
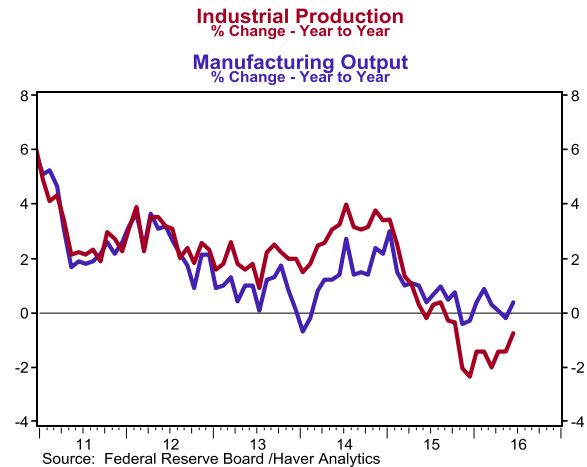


## June Industrial Production / Capacity Utilization

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- Industrial production increased 0.6% in June, beating the consensus expected increase of 0.3%. Utility output jumped 2.4%, while mining increased 0.2%.
- Manufacturing, which excludes mining/utilities, increased 0.4% in June. Auto production rose 5.9% while non-auto manufacturing dropped 0.1%. Auto production is up 7.8% versus a year ago while non-auto manufacturing is down 0.2%.
- The production of high-tech equipment declined 0.4% in June but is up 3.6% versus a year ago.
- Overall capacity utilization rose to 75.4% in June from 74.9% in May. Manufacturing capacity utilization rose to 75.1% in June from 74.8% in May.

**Implications:** Industrial production surged at the fastest pace since 2014, erasing May’s decline, and demonstrating strength in an industrial sector that that has begun to find its footing. While the headline number is still down 0.8% from a year ago, it is up 0.2% in the past six months and up at a 2.7% annual rate in the past three months, a recent acceleration that signals the sector may be leaving behind the headwinds related to the drop in oil prices in the past couple of years. However, industrial output is not going to grow every month and some of the brightest spots in June are also the most volatile categories. The single biggest factor affecting today’s report came from motor vehicle manufacturing, which surged 5.9% and is now up 7.8% versus last year. This helped push manufacturing up at its fastest pace since January and points to strong auto sales numbers in the months ahead. Meanwhile, utility output jumped 2.4% in June, reflecting unusually warm June weather in the lower 48 states. On a surprising note, mining production posted its first consecutive gain since last year, up 0.2% in June after a 0.3% gain in May. This month’s gain was driven primarily by coal mining, as well as small uptick in oil and gas well drilling. While mining (and energy in general) has been a drag on production over the past year, we expect activity in that sector to stabilize in the months ahead as energy prices are well off the lows from earlier this year. Based on other commodity prices, oil prices should average at higher levels over the next several years. Although we don’t expect overall production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect a gradual pick-up in activity in 2016. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, fell to a still positive +0.6 in July from +6.0 in June, the fourth positive reading in five months. In other words, factory activity should remain in a growth mode for the foreseeable future.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-16	May-16	Apr-16	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	0.6%	-0.3%	0.5%	2.7%	0.2%	-0.8%
<b>Manufacturing</b>	0.4%	-0.2%	0.0%	0.8%	0.4%	0.4%
<b>Motor Vehicles and Parts</b>	5.9%	-4.3%	1.3%	10.9%	8.4%	7.8%
<b>Ex Motor Vehicles and Parts</b>	-0.1%	0.1%	0.0%	0.0%	-0.4%	-0.2%
<b>Mining</b>	0.2%	0.3%	-2.8%	-8.8%	-13.0%	-10.5%
<b>Utilities</b>	2.4%	-0.9%	6.2%	35.0%	12.4%	0.5%
<b>Business Equipment</b>	0.7%	-0.3%	1.1%	6.0%	3.2%	-0.5%
<b>Consumer Goods</b>	1.2%	-0.8%	1.2%	6.4%	3.2%	1.6%
<b>High-Tech Equipment</b>	-0.4%	0.3%	-0.2%	-1.2%	3.7%	3.6%
<b>Total Ex. High-Tech Equipment</b>	0.7%	-0.4%	0.5%	3.2%	0.2%	-0.8%
<b>Cap Utilization (Total)</b>	75.4	74.9	75.2	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	75.1	74.8	75.1	75.2	75.3	75.7
				75.0	75.2	75.3

Source: Federal Reserve Board