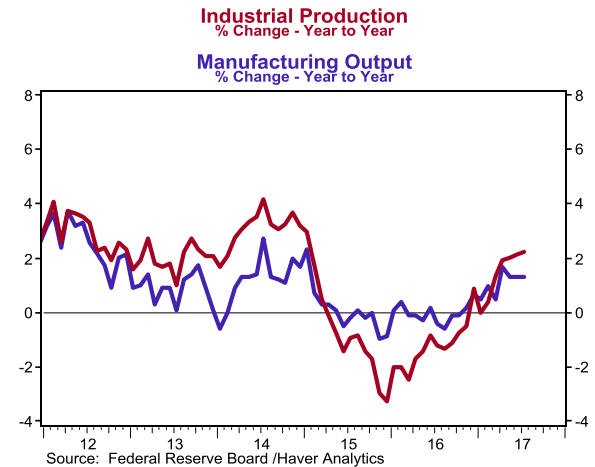


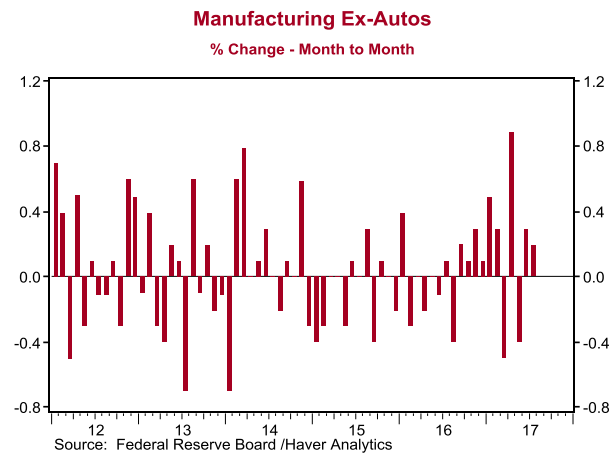
July Industrial Production / Capacity Utilization

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

- Industrial production rose 0.2% in July (0.3% including revisions to prior months). The consensus expected a gain of 0.3%. Utility output rose 1.6%, while mining rose 0.5%.
- Manufacturing, which excludes mining/utilities, was unchanged in July (including revisions to prior months, manufacturing rose 0.1%). Auto production declined 3.6% while non-auto manufacturing rose 0.2%. Auto production is down 4.9% versus a year ago while non-auto manufacturing is up 1.6%.
- The production of high-tech equipment fell 0.1% in July but is up 3.2% versus a year ago.
- Overall capacity utilization remained unchanged at 76.7% in July. Manufacturing capacity utilization fell to 75.4% in July from 75.5% in June.



Implications: Industrial production rose in July as the most volatile sectors offset each other while "core" production, which is manufacturing excluding autos, rose 0.2%. As a result, the headline measure for industrial activity rose 0.2% in July and is now up 2.2% from a year ago. The weakest sector was autos, which fell 3.6% in July. The decline in auto manufacturing has begun to accelerate recently, down 23.9% at an annual rate in the past three months versus a drop of 4.9% in the past year. This has been driven by prior overproduction in the auto sector that left both new and used car dealers saddled with a glut of inventory. Over the past couple of years, pent up demand for new vehicles after the financial crisis pushed sales temporarily above the long-term trend. Production rose to meet that demand, but then overshot. Now carmakers are paring back production to more normal levels which has been the cause of recent weakness. A big source of strength in today's report was utilities, which jumped 1.6%, as hotter than average July weather pushed up demand for air conditioning. Another positive contribution to today's headline number came from mining which rose 0.5% in July, and is now up at a 15% annual rate in the past three months versus 10.2% in the past year. Even though oil and gas-well drilling posted its first drop in 14 months in July, falling 1%, it is still up a massive 100% in the past year. Based on other commodity prices, we think oil prices are below "fair value" range, but with oil companies profitable at current prices, mining should stay in recovery after the problems of the past two years. In other news this morning, the Philly Fed index, a measure of sentiment among East Coast manufacturers, came in at +18.9 for August. That's a decline from +19.5 in July, but still very high. Finally, on the employment front this morning, initial jobless claims fell 12,000 to 232,000, while continuing claims declined 3,000 to 1.95 million. These numbers point to continued strength in the labor market in August.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-17	Jun-17	May-17	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.2%	0.4%	0.0%	2.3%	3.9%	2.2%
Manufacturing	0.0%	0.2%	-0.6%	-1.5%	0.8%	1.3%
Motor Vehicles and Parts	-3.6%	-0.8%	-2.4%	-23.9%	-9.8%	-4.9%
Ex Motor Vehicles and Parts	0.2%	0.3%	-0.4%	0.4%	1.6%	1.6%
Mining	0.5%	2.0%	1.0%	15.0%	15.5%	10.2%
Utilities	1.6%	-1.2%	2.8%	12.8%	13.0%	-0.7%
Business Equipment	-0.4%	0.5%	-2.0%	-7.3%	0.6%	0.8%
Consumer Goods	0.2%	-0.7%	0.7%	0.8%	2.3%	0.3%
High-Tech Equipment	-0.1%	-0.4%	0.1%	-1.5%	-0.4%	3.2%
Total Ex. High-Tech Equipment	0.2%	0.4%	0.0%	2.3%	4.1%	2.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.7	76.7	76.5	76.6	76.4	76.0
Manufacturing	75.4	75.5	75.4	75.4	75.5	75.3

Source: Federal Reserve Board