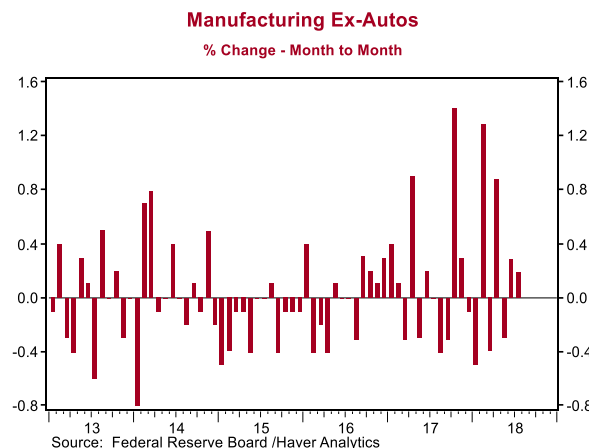
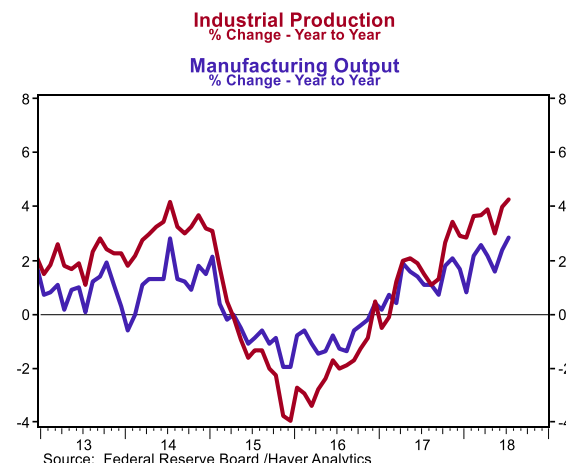


## July Industrial Production / Capacity Utilization

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

- Industrial production rose 0.1% in July (+0.3% including revisions to prior months), versus the consensus expected gain of 0.3%. Mining output declined 0.3% in July, while utilities fell 0.5%.
- Manufacturing, which excludes mining/utilities, rose 0.3% in July (+0.7% including revisions to prior months). Auto production jumped 1.0%, while non-auto manufacturing rose 0.2%. Auto production is up 8.8% versus a year ago, while non-auto manufacturing is up 2.4%.
- The production of high-tech equipment rose 0.8% in July and is up 12.1% versus a year ago.
- Overall capacity utilization remained unchanged at 78.1% in July. Manufacturing capacity utilization increased to 75.9% in July from 75.7% in June.

**Implications:** Anyone disappointed by today’s report on industrial production needs to take a closer look. While industrial production eked out only a 0.1% gain in July, growth was held back by declines in utilities and mining, which are highly volatile month-to-month. Manufacturing rose 0.3% in July, just as the consensus expected, with both auto and non-auto production posting gains. Plus, industrial production was revised higher for prior months. The end result is that total production is now up 4.2% from a year ago, the largest 12-month increase since 2012. Industrial production data counts “units” of output, and is therefore a proxy for “real” growth. Taken as a whole, the July data suggests recent strength in real growth is sustainable. Manufacturing activity, meanwhile, is up 2.9% in the past year, also the fastest 12-month increase since 2012. After posting five consecutive months of gains, mining ticked negative in July, falling 0.3%. Declines in mining outside oil and gas (think coal and other metals), as well as the drilling of new wells, swamped the continued increase in oil and gas extraction. That said, mining is up a very healthy 12.9% over the past twelve months. And after a slight dip in June/July, the rig count has begun to rise again in recent weeks, suggesting mining will rebound in the months ahead. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, rose to 25.6 in August from 22.6 in July, signaling continued optimism in the region. On the housing front, the NAHB index, which measures homebuilder sentiment, fell to 67 in August from 68 in July, remaining at a historically elevated level as concerns about rising lumber costs and a lack of labor were offset by healthy demand from buyers benefiting from a strong labor market and higher after-tax pay checks.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-18	Jun-18	May-18	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.1%</b>	1.0%	-0.8%	1.1%	5.0%	4.2%
<b>Manufacturing</b>	<b>0.3%</b>	0.8%	-0.9%	0.8%	4.5%	2.9%
<b>Motor Vehicles and Parts</b>	<b>1.0%</b>	7.6%	-8.5%	-2.4%	8.4%	8.8%
<b>Ex Motor Vehicles and Parts</b>	<b>0.2%</b>	0.3%	-0.3%	0.8%	4.0%	2.4%
<b>Mining</b>	<b>-0.3%</b>	2.9%	0.8%	14.1%	17.4%	12.9%
<b>Utilities</b>	<b>-0.5%</b>	-0.7%	-2.6%	-14.0%	-7.7%	2.4%
<b>Business Equipment</b>	<b>0.7%</b>	2.2%	-1.9%	4.1%	5.1%	4.0%
<b>Consumer Goods</b>	<b>0.1%</b>	0.9%	-2.4%	-5.8%	0.6%	2.3%
<b>High-Tech Equipment</b>	<b>0.8%</b>	1.9%	0.6%	14.1%	13.1%	12.1%
<b>Total Ex. High-Tech Equipment</b>	<b>0.1%</b>	0.9%	-0.8%	0.8%	4.6%	4.1%
<b>Cap Utilization (Total)</b>	<b>78.1</b>	78.1	77.5	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>75.9</b>	75.7	75.2	77.9	77.8	77.2
				75.6	75.7	75.3

Source: Federal Reserve Board