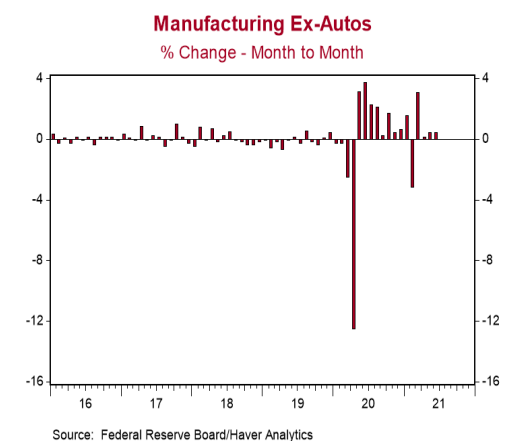
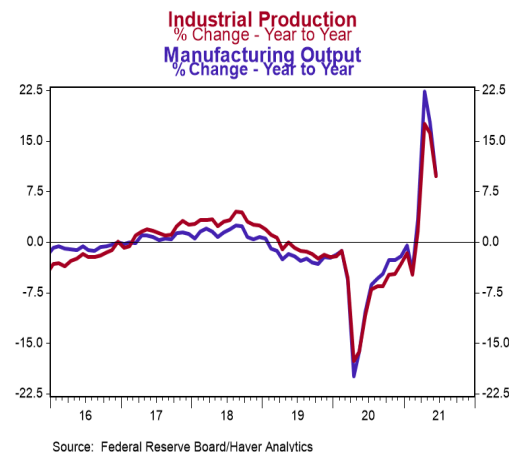


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## June Industrial Production / Capacity Utilization

- Industrial production increased 0.4% in June (+0.2% including revisions to prior months), below the consensus expected gain of 0.6%. Utilities output rose 2.7% in June, while mining rose 1.4%.
- Manufacturing, which excludes mining/utilities, declined 0.1% in June (-0.3% including revisions to prior months). Auto production fell 6.6%, while non-auto manufacturing rose 0.4%. Auto production is up 8.0% versus a year ago, while non-auto manufacturing is up 9.9%.
- The production of high-tech equipment rose 0.6% in June and is up 15.9% versus a year ago.
- Overall capacity utilization increased to 75.4% in June from 75.1% in May. Manufacturing capacity utilization fell to 75.3% in June from 75.4%.

**Implications:** Industrial production rose for a fourth consecutive month in June, but the details of the report were a mixed bag. Ongoing supply chain issues were highly visible in today's report, with overall manufacturing activity falling 0.1% in June, the result of a 6.6% decline in auto production. A major contributor to this drop was the ongoing shortage of semiconductors which continues to keep finished cars from rolling off assembly lines. Meanwhile, manufacturing outside the auto sector rose 0.4% in June, and now sits above its pre-pandemic high. Keep in mind that the manufacturing sector continues to be hamstrung by not only supply chain issues, but also a severe labor shortage, with job openings in that sector near a record high and more than double pre-pandemic levels. Mining activity continued to recover in June, rising 1.4%, and is likely to be an ongoing tailwind in the months ahead. Oil prices are now above where they were pre-pandemic and nearing levels not seen since 2014. With upward pressure on prices likely to continue as the US reopens, and the mining index still down 9.3% from pre-pandemic levels, activity should continue to expand to meet surging demand. Look for a continued upward trend in overall industrial production in the months ahead as reopening continues, supply chain issues are gradually ironed out, and labor disincentives dissipate. In employment news this morning, initial jobless claims fell 26,000 last week to 360,000. Meanwhile continuing claims declined 126,000 to 3.241 million. These both represent new lows so far during the pandemic recovery, signaling ongoing improvement in the labor market. In other factory related news this morning, the Empire State Index, a measure of New York factory sentiment, soared to +43.0 in July from +17.4 in June. This is the highest level on record back to 2001 and reflects a surge in both new orders and shipments, as well as a record number of manufacturers surveyed raising their selling prices. Meanwhile, the Philadelphia Fed Index, a measure of factory sentiment in that region, fell to a still very robust 21.9 in July from 30.7 in June. Finally, we also got trade inflation data this morning. Import prices rose 1.0% in June while export prices increased 1.2%. In the past year, import prices are up 11.2%, while export prices are up 16.8%, a sign that monetary policy has been too loose for too long.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jun-21	May-21	Apr-21	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	0.4%	0.7%	0.0%	4.9%	3.7%	9.8%
<b>Manufacturing</b>	-0.1%	0.9%	-0.4%	1.7%	2.3%	9.9%
<b>Motor Vehicles and Parts</b>	-6.6%	7.3%	-7.2%	-25.2%	-24.5%	8.0%
<b>Ex Motor Vehicles and Parts</b>	0.4%	0.4%	0.1%	3.7%	4.6%	9.9%
<b>Mining</b>	1.4%	0.8%	0.4%	10.6%	16.1%	17.7%
<b>Utilities</b>	2.7%	-0.8%	2.7%	19.9%	0.2%	2.1%
<b>Business Equipment</b>	-0.6%	1.6%	-1.8%	-3.4%	3.3%	15.1%
<b>Consumer Goods</b>	-0.3%	0.7%	-0.5%	-0.4%	-1.4%	5.4%
<b>High-Tech Equipment</b>	0.6%	1.3%	1.0%	12.2%	15.4%	15.9%
<b>Total Ex. High-Tech Equipment</b>	0.4%	0.7%	0.0%	4.6%	3.3%	9.6%
<b>Cap Utilization (Total)</b>	<b>75.4</b>	<b>75.1</b>	<b>74.6</b>	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>75.3</b>	<b>75.4</b>	<b>74.7</b>	75.0	74.6	73.6
				75.1	74.8	73.9

Source: Federal Reserve Board