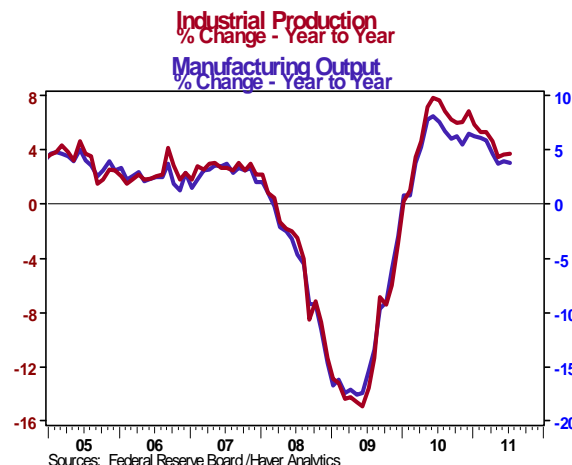


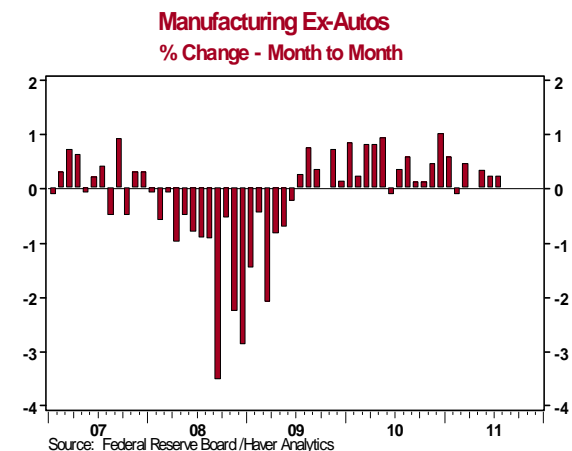
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elss – Economic Analyst
Andrew Hull – Economic Analyst

July Industrial Production / Capacity Utilization

- Industrial production surged 0.9% in July, blowing away the consensus expected gain of 0.4%. Including revisions to prior months, production rose 1.2%. Output is up 3.7% in the past year.
- Manufacturing, which excludes mining/utilities, was up 0.7% in July, but down 0.2% including revisions to previous months. Auto production rose 5.2% in July. Non-auto manufacturing increased 0.2%. Auto production is down 0.2% versus a year ago while non-auto manufacturing has risen 4.0%.
- The production of high-tech equipment fell 0.1% in July but is up 8.3% versus a year ago.
- Overall capacity utilization rose to 77.5% in July from 76.9% in June. Manufacturing capacity use increased to 75.0% in July from 74.6% in June.



Implications: As of July, the soft patch in manufacturing had ended. Industrial production surged 0.9% in July, the largest monthly gain this year. The July jump was fueled by a 5.2% expansion in auto production. This monthly increase – at an 83% annualized rate - suggests that the supply-chain disruptions coming from Japan have ended. We expect more increases like this in the next few months. *Excluding autos*, manufacturing production increased 0.2% in June, and is up 4% versus a year ago. Corporate profits and cash on the balance sheets of non-financial companies are at record highs. Meanwhile, companies can fully expense these purchases for tax purposes through year-end. This suggests business equipment purchases and production should rise as the second half of 2011 unfolds. Today’s report also showed that capacity utilization hit its highest level since August 2008, coming in at 77.5. As it did in 2010, the industrial sector has reasserted its leadership of the recovery. The rise in overall, nation-wide production during July suggests that the weakness reported by the Empire State manufacturing index (which fell to -7.7 in August from -3.8 in July) is unlikely to continue. We believe that purchasing managers surveys have become less reliable. They seem to be influenced more by emotion and uncertainty than they have in the past.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-11	Jun-11	May-11	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Industrial Production	0.9%	0.4%	0.2%	6.2%	3.0%	3.7%
Manufacturing	0.7%	0.1%	0.2%	4.0%	2.9%	4.1%
Motor Vehicles and Parts	5.2%	-0.9%	-0.4%	16.6%	7.7%	-0.2%
Ex Motor Vehicles and Parts	0.2%	0.2%	0.3%	3.1%	2.2%	4.0%
Mining	1.0%	1.2%	0.6%	12.0%	7.4%	6.5%
Utilities	2.8%	0.8%	-0.3%	13.9%	-0.8%	-0.1%
Business Equipment	0.6%	0.3%	1.4%	9.7%	5.4%	8.5%
Consumer Goods	1.1%	0.1%	0.0%	4.8%	0.6%	1.3%
High-Tech Equipment	-0.1%	0.2%	0.6%	2.9%	-0.2%	8.3%
Total Ex. High-Tech Equipment	1.0%	0.3%	0.2%	6.3%	3.1%	3.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.5	76.9	76.7	77.0	76.9	76.5
Manufacturing	75.0	74.6	74.6	74.7	74.6	73.9

Source: Federal Reserve Board