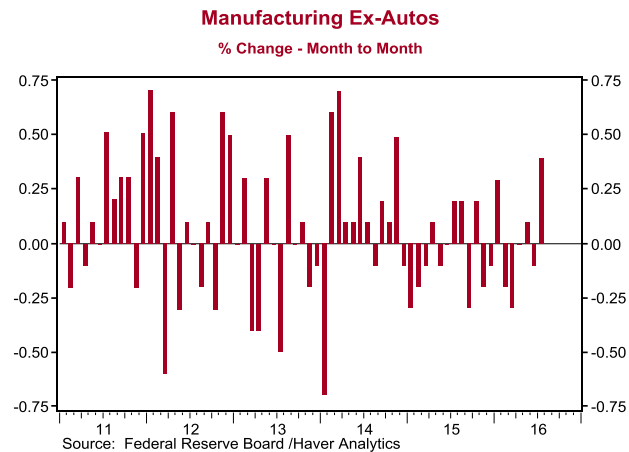
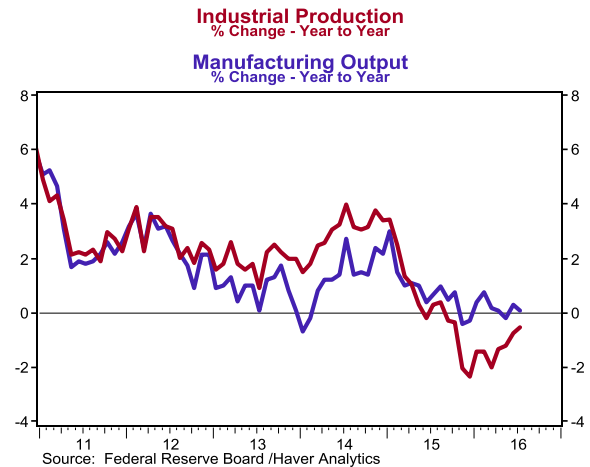


July Industrial Production / Capacity Utilization

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- Industrial production rose 0.7% in July, easily beating the consensus expected increase of 0.3%. Utility output jumped 2.1%, while mining increased 0.7%.
- Manufacturing, which excludes mining/utilities, increased 0.5% in July. Auto production rose 1.9% while non-auto manufacturing increased 0.4%. Auto production is up 1.8% versus a year ago while non-auto manufacturing remains unchanged.
- The production of high-tech equipment increased 1.0% in July and is up 5.8% versus a year ago.
- Overall capacity utilization rose to 75.9% in July from 75.4% in June. Manufacturing capacity utilization rose to 75.4% in July from 75.0% in June.

Implications: Industrial production surged in July at the fastest pace since 2014, extending June’s gain and demonstrating strength in a sector that has begun to find its footing. While the headline number is still down 0.6% from a year ago, it is up 0.8% at an annual rate in the past six months and up at a 3.9% annual rate in the past three months, an acceleration that signals the sector may be leaving behind the headwinds related to the drop in oil prices in the past couple of years. This is reinforced by July’s gain being broad-based, with every major headline number showing expansion. We like to follow non-auto manufacturing, which strips out the most volatile sectors, and that rose 0.4% in July, the best growth since 2014. Meanwhile, the more volatile sectors added to industrial growth in July. Auto production increased 1.9% on top of a sharp 5.2% increase in June, hitting a new all-time record high. Utility output jumped 2.1%, reflecting unusually warm July weather in the lower 48 states. Perhaps the best news was that mining production jumped 0.7% in July, and is now up at a 4.7% annual rate in the past three months. This month’s gain was driven primarily by coal mining, however, oil and gas well drilling jumped 4.9% as well, the largest monthly gain since 2010. While mining (and energy in general) has been a drag on production over the past year, we expect activity in that sector to stabilize and even grow 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 industrial production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect solid growth in the year ahead. In other recent news, the Empire State index, a measure of manufacturing sentiment in New York, fell to -4.2 in August from +0.5 in July, signaling that the improvement in the factory sector will not be a straight line. That’s what we should expect in Plow Horse Economy.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jul-16	Jun-16	May-16	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.7%	0.4%	-0.2%	3.9%	0.8%	-0.6%
Manufacturing	0.5%	0.3%	-0.2%	2.4%	0.4%	0.1%
Motor Vehicles and Parts	1.9%	5.2%	-4.5%	10.4%	6.9%	1.8%
Ex Motor Vehicles and Parts	0.4%	-0.1%	0.1%	1.6%	-0.2%	0.0%
Mining	0.7%	-0.3%	0.8%	4.7%	-7.3%	-10.2%
Utilities	2.1%	2.1%	-0.4%	16.1%	9.5%	3.5%
Business Equipment	0.6%	0.6%	-0.2%	4.0%	4.0%	0.0%
Consumer Goods	0.6%	0.6%	-0.5%	2.7%	1.6%	0.8%
High-Tech Equipment	1.0%	0.2%	1.0%	9.3%	3.9%	5.8%
Total Ex. High-Tech Equipment	0.7%	0.5%	-0.2%	3.9%	0.6%	-0.8%
Cap Utilization (Total)	75.9	75.4	75.1	3-mo Average	6-mo Average	12-mo Average
Manufacturing	75.4	75.0	74.8	75.5	75.4	75.7
				75.1	75.1	75.3

Source: Federal Reserve Board