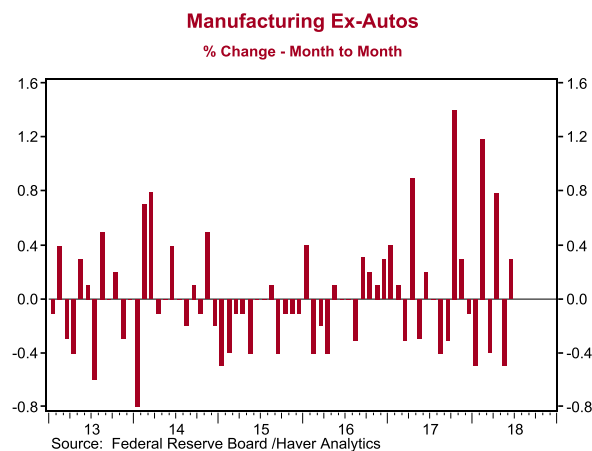
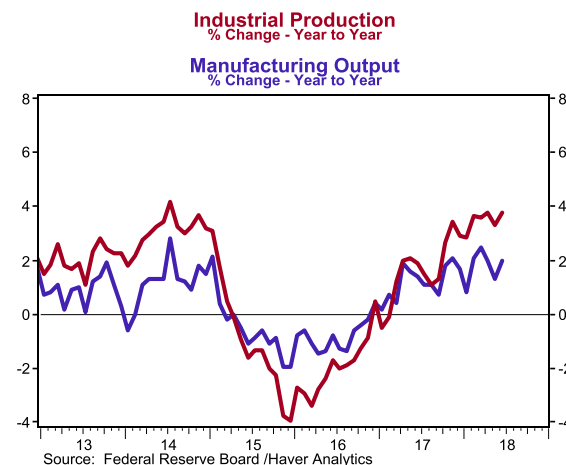


June Industrial Production / Capacity Utilization

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- Industrial production rose 0.6% in June (0.4% including revisions to prior months), versus the consensus expected a gain of 0.5%. Mining output increased 1.2% in June, while utilities fell 1.5%.
- Manufacturing, which excludes mining/utilities, rose 0.8% in June (0.4% including revisions to prior months). Auto production jumped 7.7% while non-auto manufacturing rose 0.3%. Auto production is up 3.6% versus a year ago while non-auto manufacturing is up 1.8%.
- The production of high-tech equipment rose 1.4% in June and is up 7.5% versus a year ago.
- Overall capacity utilization rose to 78.0% in June from 77.7% in May. Manufacturing capacity utilization increased to 75.5% in June from 75.0% in May.

Implications: Industrial production posted a healthy rebound in June after a surprise drop in May, narrowly beating consensus estimates to hit the highest level on record. May's decline was primarily due to a fire at an auto-parts supplier that held back motor vehicle production, so part of the strength in today's report was due to the 7.7% jump in auto production while things got back to normal. That said, today's headline number wasn't just the result of a recovery in the auto sector. Manufacturing outside the auto sector (the largest portion of overall production) also posted a 0.3% gain in June and has been accelerating recently, up at a 2.4% annualized rate in the past 3 months versus a 1.8% gain in the past year. Mining also continued to be a source of strength in June, rising 1.2% to post a new record high on the back of healthy increases in oil and gas extraction. In the past year, mining is up 13%. After a slight dip in June, the rig count has begun to rise again in recent weeks, suggesting gains in mining production will continue in the months ahead. The one weak spot in June came from utilities, which fell 1.5%, the result of a decline in electricity output. For the quarter as a whole, industrial production was up at a 6.1% annual rate compared to the level of output in Q1. This is consistent with our forecast that real GDP grew at about a 5.0% annual rate in Q2. In other news this morning, the NAHB index, which measures homebuilder sentiment, remained unchanged in July at a historically elevated level of 68, as concerns about rising lumber costs 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>	Jun-18	May-18	Apr-18	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.6%	-0.5%	1.1%	5.0%	3.6%	3.8%
Manufacturing	0.8%	-1.0%	0.5%	1.2%	2.2%	2.0%
Motor Vehicles and Parts	7.7%	-8.5%	-2.0%	-13.2%	5.5%	3.6%
Ex Motor Vehicles and Parts	0.3%	-0.5%	0.8%	2.4%	1.8%	1.8%
Mining	1.2%	2.2%	0.7%	18.3%	15.5%	13.0%
Utilities	-1.5%	-0.6%	5.8%	14.8%	-0.7%	4.9%
Business Equipment	2.1%	-2.1%	1.1%	4.5%	2.7%	2.3%
Consumer Goods	0.7%	-1.9%	1.6%	1.5%	1.7%	2.5%
High-Tech Equipment	1.4%	0.0%	1.7%	13.0%	6.0%	7.5%
Total Ex. High-Tech Equipment	0.7%	-0.6%	1.1%	5.0%	3.7%	3.7%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.0	77.7	78.2	78.0	77.6	77.0
Manufacturing	75.5	75.0	75.8	75.4	75.4	75.1