

Despicable IP (not)

U.S. industrial production rose twice as fast as expected in July, by 1.0%, erasing the prior month's slight decline, and re-establishing a strong upward trend. IP rose 9½% annualized in the past three months, suggesting that at least one area of the economy remains vibrant. Manufacturing led the gain, with almost half of its 1.1% increase driven by the auto sector. GM's decision to keep its plants running through the normal retooling season likely juiced the headline figure, but manufacturing was still up a decent 0.6% ex-autos. The gains were widespread, with solid increases in business equipment and, surprisingly, in consumer goods (especially home electronics) and even construction supplies. Output of business equipment has soared 16% annualized in the past three months, flagging another decent quarter for business capex following a blow-out first half of the year. Outside of manufacturing, mining posted a solid 0.9% advance, while utilities cooled a bit.

Even if production continues to grow rapidly, it will take some time before price pressures re-emerge in the industrial space. The capacity utilization rate climbed 0.7 ppts to 74.8%, its highest level since Lehman Brothers' collapse and well above last summer's record-low of 68.2%. However, it is still a good six ppts below the long-run norm of 81%. Note that despite a 25% surge in core crude goods prices in the past year, and a 4.8% spike at the intermediate level, core finished goods prices are up just 1.5%. Producers continue to eat the bulk of commodity price increases.

	(month/month % change)			(% change : a.r.)	
	Jul	Jun	May	3-month	12-month
Total	1.0	-0.1	1.3	9.4	7.7
Manufacturing	1.1	-0.5	1.1	7.2	7.7
High-Tech ***	0.8	0.4	0.7	7.9	15.2
Mfg. ex. High-Tech	1.2	-0.5	1.1	7.1	7.3
Durables	2.1	-0.1	1.4	14.2	11.9
Motor Vehicles & Parts	9.9	-2.5	5.7	65.1	32.6
Computers & Office Equip.	0.9	1.2	1.0	12.9	18.4
Non-Durables	0.1	-0.7	0.6	-0.2	4.0
Business Equipment	1.8	0.5	1.4	16.1	11.7
Mining	0.9	0.2	-0.7	1.6	7.5
Utilities	0.1	2.3	5.9	37.9	8.2
Capacity Utilization (%)	74.8	74.1	74.1	73.1 *	69.1 ***
Manufacturing	72.4	71.6	71.9	71.1 *	66.5 ***

* 3 months ago *** 12 months ago

The Bottom Line: At least 12% of the U.S. economy is doing great.

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