Manufacturing output nears record high

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Industrial production increased 0.4 percent in July on the heels of an upward revision as manufacturing output nears an all-time high.

Manufacturing production rose 1 percent in July from the previous month, the Federal Reserve reported Friday. Factory output in June was revised slightly higher to a 0.3 percent increase. Over the past 12 months, manufacturing has risen 4.9 percent.

Wells Fargo economists Tim Quinlan and Sarah Watt House said manufacturing's July gain was the largest in five months and puts overall factory output "within a hair's breadth" of its December 2007 all-time high. Moreover, the gains were broadly based, the economists said.

The largest gain in manufacturing was a 10.1 percent surge last month in motor vehicle and parts production.

But Quinlan and House said that "was something of a head-scratcher" since July wholesale motor vehicle sales were disappointing and retail sales of autos on dealer lots fell in June and July.

"The point here is that due to seasonal adjustment and the gradual fading effect of the summer shutdowns, the surge in auto production should be taken with a grain of salt," the economists said.

They said that in past years, summertime traditionally was a period when automakers furloughed workers and shut down plants to retool factories and get assembly lines geared up for the new model year.

"That has been less the case in recent years as technological improvements and a less synchronous model-year turnover have shortened or eliminated the so-called summer shutdowns," Quinlan and House said. "This is good for autoworkers but it makes it difficult to seasonally adjust the numbers."

Federal Reserve officials said overall industrial production, which includes manufacturing, mining and utilities, rose 0.4 percent in July, dragged down by a 3.4 percent drop in production at utilities.

Unexpected mild weather in July reduced demand for air conditioning, the officials said.



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