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# SEPTEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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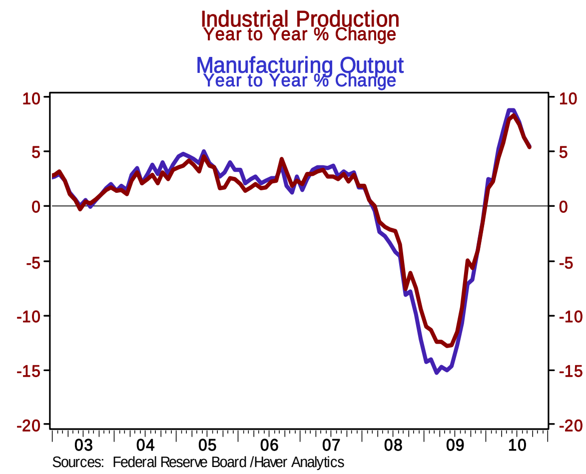
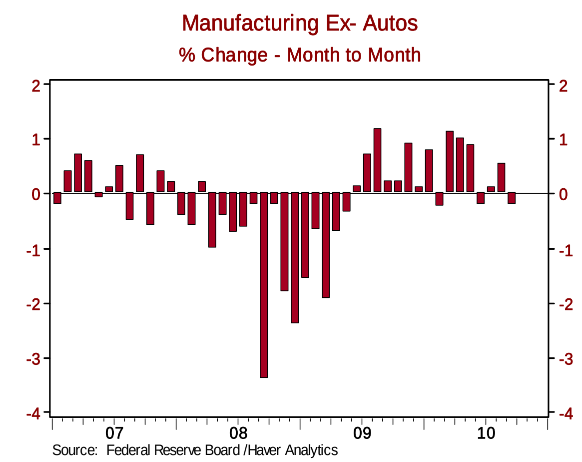
- Industrial production declined 0.2% in September, falling short of the consensus expected gain of 0.2%. Production is up at a 4.9% annual rate in the past six months.
- Manufacturing production declined 0.1% in September, with auto production rising 0.5% but non-auto production falling 0.2%. In the past six months, auto production is up at a 12.7% annual rate while non-auto manufacturing is up at a 4.3% rate.
- The production of high-tech equipment increased 0.3% in September, was revised up for previous months, and is up at an 11.3% annual rate in the past six months.
- Overall capacity utilization ticked down to 74.7% in September but is still up 6.5 percentage points from the low in June 2009, the fastest increase since the early 1980s. Manufacturing capacity use ticked down to 72.2%.




**Implications:** Production in the US industrial sector declined in September, the first negative reading for any month since the recession ended in June 2009. However, this is not a sign of a double-dip recession. Unusually mild weather in September for much of the country pushed down utility production by 1.9%. And while manufacturing dipped 0.1% in September, it was up 0.1% when you include upward revisions to previous months. We anticipate a rebound in factory output next month. Although capacity utilization in the industrial sector is at 74.7% -- versus a long-term average of 80% -- capacity use is well above the low of 68.2% at the bottom of the recession in mid-2009. The rise in capacity utilization over the last 15 months is in part due to the economic revival, but also because of falling capacity in the industrial sector. As a result of a depreciating capital stock, capacity use could be back to the long-term average of 80% by next year. In turn, this gives companies the motive to buy more equipment. Meanwhile, corporate profits and cash on the balance sheet (earning essentially 0% interest) are near record highs, meaning companies have the wherewithal to buy more equipment as well.

| **Industrial Production Capacity Utilization** *All Data Seasonally Adjusted* | **Sep-10** | **Aug-10** | **Jul-10** | **3-mo % Ch *annualized*** | **6-mo % Ch. *annualized*** | **Yr to Yr *% Change*** |
|---|---|---|---|---|---|---|
| ***Industrial Production*** | **-0.2%** | 0.2% | 0.7% | 2.6% | 4.9% | 5.4% |
| ***Manufacturing*** | **-0.1%** | 0.1% | 0.7% | 3.1% | 5.2% | 5.9% |
| ***Motor Vehicles and Parts*** | **0.5%** | -6.3% | 9.6% | 13.4% | 12.7% | 10.4% |
| ***Ex Motor Vehicles and Parts*** | **-0.2%** | 0.5% | 0.1% | 1.8% | 4.3% | 5.2% |
| ***Mining*** | **0.7%** | 1.6% | 0.9% | 13.5% | 8.5% | 7.3% |
| ***Utilities*** | **-1.9%** | -1.4% | 0.9% | -9.1% | 0.4% | 2.7% |
| ***Business Equipment*** | **0.1%** | 0.3% | 1.1% | 6.1% | 12.7% | 10.1% |
| ***Consumer Goods*** | **-0.4%** | -0.5% | 1.0% | 0.0% | 2.2% | 3.2% |
| ***High-Tech Equipment*** | **0.3%** | 0.5% | 0.4% | 5.2% | 11.3% | 12.5% |
| ***Total Ex. High-Tech Equipment*** | **-0.2%** | 0.2% | 0.7% | 2.6% | 4.7% | 5.1% |
| | | | | 3-mo Average | 6-mo Average | 12-mo Average |
| ***Cap Utilization (Total)*** | **74.7** | 74.8 | 74.7 | 74.7 | 74.3 | 73.1 |
| ***Manufacturing*** | **72.2** | 72.3 | 72.2 | 72.2 | 71.9 | 70.6 |

*Source: Federal Reserve Board*