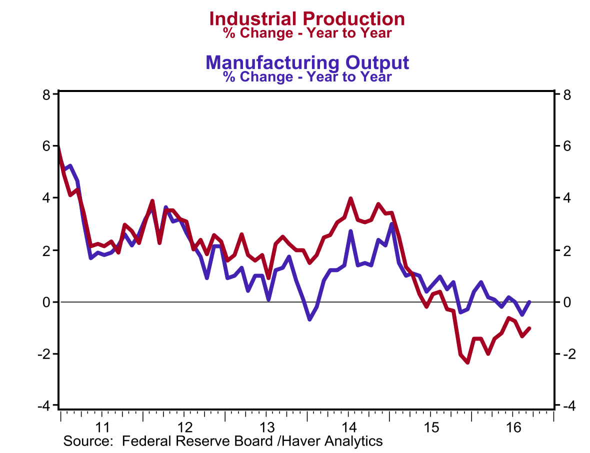
First Trust DATAWATCH

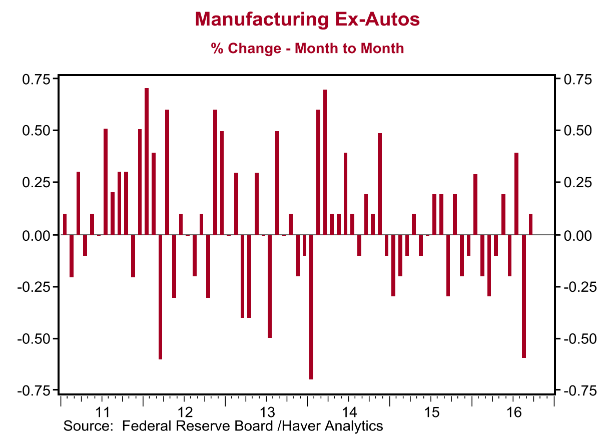
October 17, 2016 • 630.517.7756 • www.ftportfolios.com

September Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Industrial production increased 0.1% in September, matching the consensus (Including revisions to prior months, production declined 0.2%). Utility output fell 1.0%, while mining increased 0.4%.
- Manufacturing, which excludes mining/utilities, increased 0.2% in September (Including revisions to prior months, manufacturing rose 0.1%). Auto production rose 0.2% while non-auto manufacturing increased 0.1%. Auto production is up 5.0% versus a year ago while non-auto manufacturing is down 0.5%.
- The production of high-tech equipment increased 0.6% in September and is up 3.8% versus a year ago.
- Overall capacity utilization rose to 75.4% in September from 75.3% in August. Manufacturing capacity utilization rose to 74.9% in September from 74.8% in August.





Implications: After suffering a setback in August, industrial production rose modestly in September, continuing to demonstrate the type of "fits and starts" recovery that has become familiar. Industrial production rose 0.1% in September but is still down 1% versus a year ago. Some pessimistic analysts will point out that the rate of industrial production has begun to slow, down from a 1.6% annualized growth rate in the past six months to unchanged in the past three. However, this is transitory and primarily due to corresponding weakness in utilities output, as demand for air conditioning which hit a record high in the third quarter wanes due to cooling temperatures. One source of strength in today's report was a rebound in manufacturing, which posted a gain of 0.2%. This was led by the volatile auto sector posting its fourth consecutive gain, increasing 0.2% in September, as well as a 0.1% gain in non-auto manufacturing. As a result, the overall index was lifted into positive territory. Perhaps the best news was that mining production rose 0.4%, and is now up at a 1.9% annual rate in the past three months, despite still being down 9.5% in the past year. This month's gain was driven by both nonmetallic minerals and coal mining. Further, oil and gas-well drilling posted its fifth consecutive gain in September, jumping 5.1%, and is now up at a 66.3% annual rate in the past three months. While mining (and energy in general) has been a drag on production over the past year, we expect activity in that sector to grow in the year ahead as energy prices are well off the lows. 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 -6.8 in October from -2.0 in September, 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 *All Data Seasonally Adjusted*	**Sep-16**	**Aug-16**	**Jul-16**	**3-mo % Ch** *annualized*	**6-mo % Ch.** *annualized*	**Yr to Yr** *% Change*
Industrial Production	**0.1%**	-0.5%	0.5%	0.0%	1.6%	-1.0%
Manufacturing	**0.2%**	-0.6%	0.5%	0.4%	0.4%	0.0%
Motor Vehicles and Parts	**0.2%**	0.8%	0.8%	7.3%	7.9%	5.0%
Ex Motor Vehicles and Parts	**0.1%**	-0.6%	0.4%	-0.4%	-0.4%	-0.5%
Mining	**0.4%**	-1.0%	1.1%	1.9%	-3.7%	-9.5%
Utilities	**-1.0%**	-0.2%	0.3%	-3.8%	16.2%	-0.5%
Business Equipment	**-0.2%**	-0.6%	0.1%	-2.7%	1.4%	-1.5%
Consumer Goods	**0.2%**	-0.2%	0.4%	1.5%	4.2%	0.9%
High-Tech Equipment	**0.6%**	-0.2%	1.0%	5.7%	4.1%	3.8%
Total Ex. High-Tech Equipment	**0.1%**	-0.6%	0.5%	0.0%	1.6%	-1.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**75.4**	75.3	75.8	75.5	75.4	75.5
Manufacturing	**74.9**	74.8	75.2	75.0	75.0	75.1

Source: Federal Reserve Board