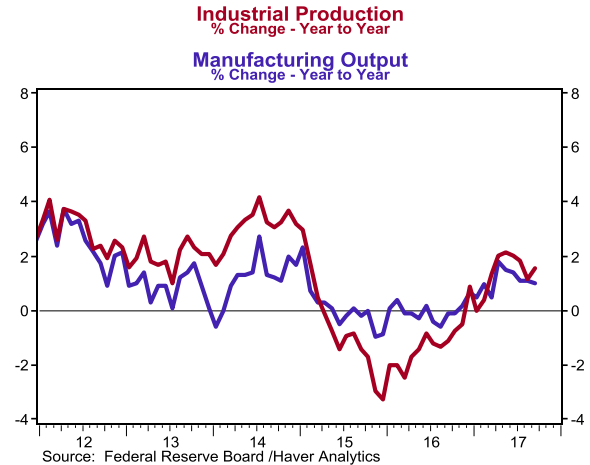


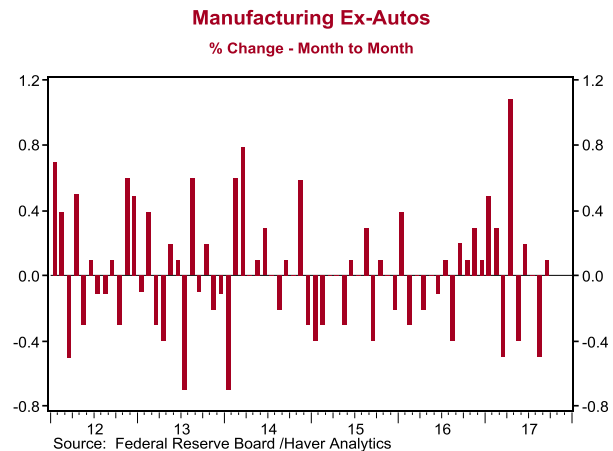
September Industrial Production / Capacity Utilization

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- Industrial production increased 0.3% in September, matching consensus expectations (including revisions to prior months it declined 0.1%). Utility output rose 1.5%, while mining increased 0.4%.
- Manufacturing, which excludes mining/utilities, increased 0.1% in September (-0.2% including revisions to prior months). Both auto production and non-auto manufacturing rose 0.1%. Auto production is down 3.2% versus a year ago while non-auto manufacturing is up 1.3%.
- The production of high-tech equipment rose 1.6% in September and is up 2.3% versus a year ago.
- Overall capacity utilization rose to 76.0% in September from 75.8% in August. Manufacturing capacity utilization remained unchanged at 75.1% in September.



Implications: After suffering significantly from Hurricane Harvey’s landfall in August, industrial production rebounded in September, posting broad-based gains despite Hurricane Irma hitting Florida. Industrial production rose 0.3% in September and is now up 1.6% versus a year ago. One reason the effects of Irma were less severe is that Florida’s industrial sector isn’t as concentrated as in Houston with Harvey, which hit the oil and gas industry heavily in August. Looking forward, expect further gains in overall production as the economy recovers from the effects of the two hurricanes. One source of strength in September was utilities, which bounced back 1.5% after an unusually mild August on the East Coast. Mining also rebounded in September, rising 0.4%, led by crude petroleum and natural gas extraction. Oil and gas-well drilling struggled due to the storms, but is still up a massive 77% from a year ago. Look for a surge in drilling activity in the months ahead once the effects of the storms pass. In other recent news on the factory sector, the Empire State index, a measure of New York manufacturing sentiment, increased to 30.2 in October from 24.4 in September. At 30.2, the index tied the highest level since late 2009. On the inflation front, import prices rose 0.7% in September, 0.3% excluding oil. Export prices rose 0.8% in September. In the past year, import prices are up 2.7% while export prices are up 2.9%, both in stark contrast to the price declines in the twelve months ending in September 2016. Another reason why the Federal Reserve should raise rates in December. In other news this morning, the NAHB index, which measures homebuilder sentiment, rose to 68 in October from 64 in September, moving back to pre-hurricane levels and signaling continued optimism from developers.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-17	Aug-17	Jul-17	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.3%	-0.7%	-0.1%	-2.3%	1.4%	1.6%
Manufacturing	0.1%	-0.3%	-0.3%	-1.9%	0.8%	1.0%
Motor Vehicles and Parts	0.1%	3.7%	-4.9%	-4.9%	-0.6%	-3.2%
Ex Motor Vehicles and Parts	0.1%	-0.5%	0.0%	-1.6%	1.0%	1.3%
Mining	0.4%	-0.2%	0.5%	2.2%	6.7%	9.8%
Utilities	1.5%	-4.9%	0.6%	-11.1%	-2.2%	-4.0%
Business Equipment	0.8%	-0.3%	-1.2%	-2.7%	2.2%	2.1%
Consumer Goods	0.6%	-0.7%	0.0%	-0.4%	2.9%	0.2%
High-Tech Equipment	1.6%	0.4%	-1.6%	1.8%	4.9%	2.3%
Total Ex. High-Tech Equipment	0.3%	-0.8%	-0.1%	-2.3%	1.4%	1.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.0	75.8	76.5	76.1	76.3	76.1
Manufacturing	75.1	75.1	75.3	75.2	75.4	75.3

Source: Federal Reserve Board