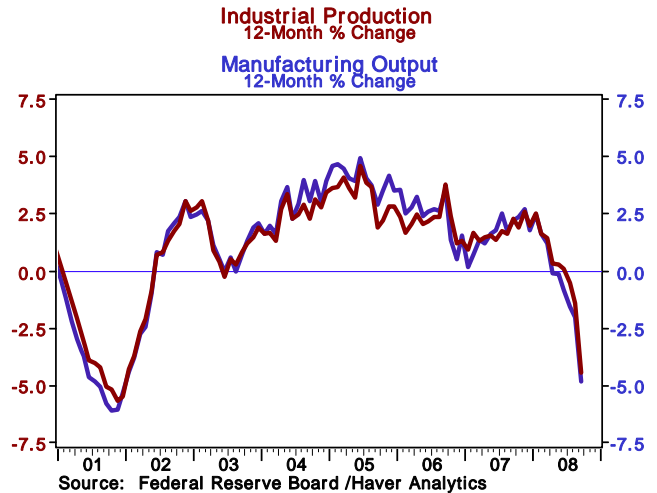


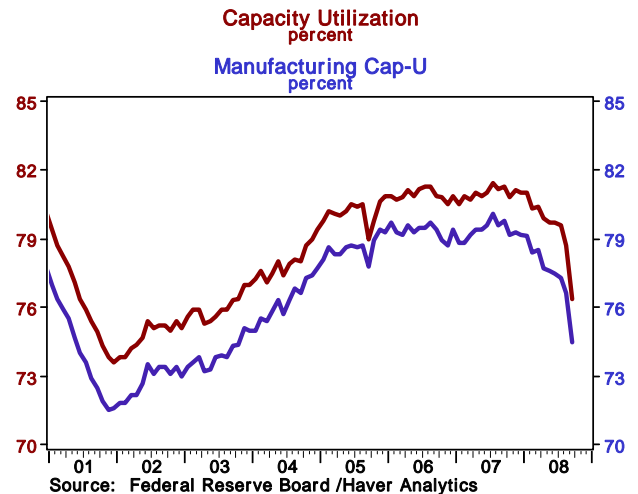
SEPTEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production dropped 2.8% in September versus a consensus expected decline of 0.8%. Production is down 4.5% versus a year ago.
- Manufacturing output was down 2.5% in September. Motor vehicle production rose 1.9% after last month's plunge of 11.3%. Manufacturing production outside the auto sector fell 2.7%. The production of high-tech equipment grew 0.5% in September and is up 17.2% versus last year.
- Overall capacity utilization declined to 76.4% in September from 78.7% in August. Manufacturing capacity utilization dropped to 74.5% versus 76.6% in August.



Implications: Given the recent economic contraction, we are bound to get some weak data. However, September's huge plunge in industrial production – the steepest monthly drop since 1974 – greatly overstates the pain in the industrial sector. The Federal Reserve, which compiles this data, says Hurricanes Gustav and Ike reduced output by about 2.3% in September while a strike at Boeing cut production by another 0.5%. In other words, industrial production would have been unchanged without these special factors and is likely to rebound, perhaps sharply, in October. In other news this morning, the Philadelphia Fed index, a measure of manufacturing strength in the Philadelphia region, plummeted in October, falling to -37.5, the lowest level since 1990. All major sub-indexes fell into negative territory, including new orders, shipments, unfilled orders, and employment. The Philly Fed data, like other business and consumer surveys, may be driven by emotion instead of actual economic activity.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-08	Aug-08	Jul-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-2.8%	-1.0%	0.0%	-14.2%	-8.2%	-4.5%
Manufacturing	-2.5%	-0.9%	0.0%	-13.7%	-8.4%	-4.8%
Motor Vehicles and Parts	1.9%	-11.3%	2.5%	-26.3%	-16.8%	-16.4%
Ex Motor Vehicles and Parts	-2.7%	-0.3%	-0.2%	-12.0%	-7.7%	-4.0%
Mining	-7.8%	0.0%	1.6%	-23.0%	-11.6%	-3.6%
Utilities	2.1%	-3.1%	-1.9%	-11.1%	-3.6%	-2.1%
Business Equipment	-7.0%	-0.2%	0.0%	-25.8%	-15.8%	-7.0%
Consumer Goods	-1.3%	-1.7%	-0.3%	-12.5%	-6.8%	-5.0%
High-Tech Equipment	0.5%	0.1%	0.9%	5.9%	8.1%	17.2%
Total Ex. High-Tech Equipment	-3.0%	-1.0%	-0.1%	-15.3%	-9.1%	-5.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.4	78.7	79.6	78.2	79.0	79.9
Manufacturing	74.5	76.6	77.3	76.1	76.9	77.9

Source: Federal Reserve Board