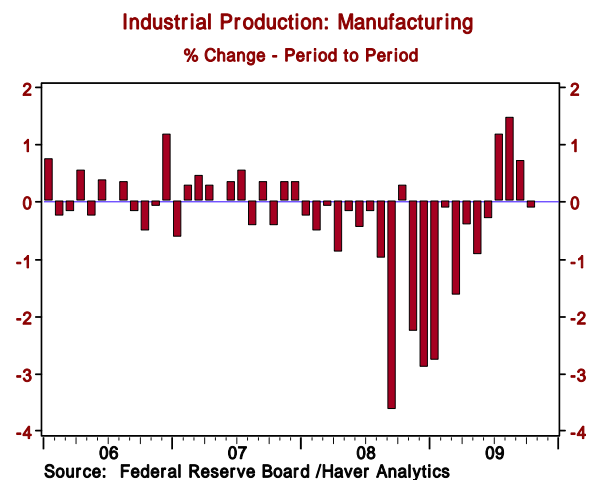
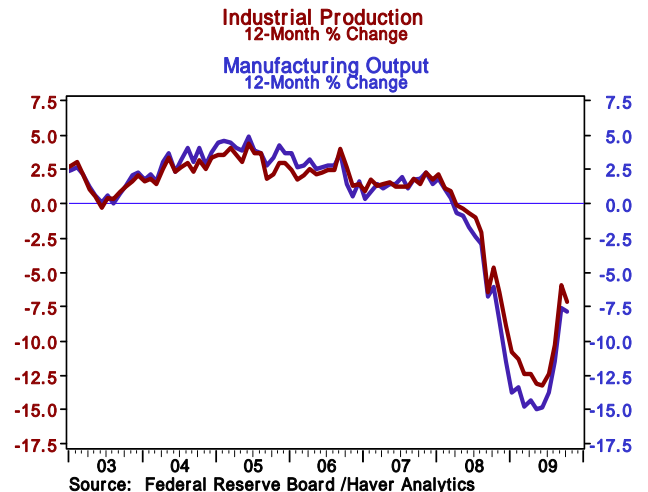


# OCTOBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.1% in October, falling short of the consensus expected gain of 0.4%. Production is up at a 2.9% annual rate in the past six months.
- Manufacturing output declined 0.1% in October. Motor vehicle/parts production fell 1.6% while manufacturing ex-autos was unchanged.
- The production of high-tech equipment rose 0.6% in October, but was revised down for previous months.
- Overall capacity utilization increased to 70.7% in October, very close to the consensus expected 70.8%. Manufacturing capacity utilization was unchanged at 67.6%.

**Implications:** After outsized gains in the past three months, the industrial sector expanded at a slower 0.1% pace in October, helped by a surge in utility output. Production in the manufacturing sector declined slightly, but this was due to a temporary slip in auto production after large gains in previous months. Stripping out autos, manufacturing has increased at a 6.2% annual rate in the past three months. Why are we so confident that the dip in auto production in October is temporary? Because “scrapage” rates for autos plus increases in the US driving-age population mean that auto sales need to go up to almost a 16 million annual rate sometime in the next two years. This represents an increase of roughly 50% versus the sales pace of October. Foreign production will account for some of the increase in sales. However, given the depreciation of the US dollar, domestic production – which still accounts for about 75% of US auto sales – will increase substantially as the pace of sales increases.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-09	Sep-09	Aug-09	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Industrial Production</b>	<b>0.1%</b>	0.6%	1.3%	8.1%	2.9%	-7.2%
<b>Manufacturing</b>	<b>-0.1%</b>	0.7%	1.5%	8.9%	4.6%	-7.6%
<b>Motor Vehicles and Parts</b>	<b>-1.6%</b>	8.1%	6.1%	62.8%	44.3%	-11.6%
<b>Ex Motor Vehicles and Parts</b>	<b>0.0%</b>	0.4%	1.1%	6.2%	2.2%	-7.7%
<b>Mining</b>	<b>-0.3%</b>	0.6%	1.2%	6.0%	0.6%	-6.9%
<b>Utilities</b>	<b>1.6%</b>	-0.2%	0.8%	9.3%	-2.8%	-2.1%
<b>Business Equipment</b>	<b>-0.3%</b>	-0.4%	1.1%	1.9%	-2.7%	-6.8%
<b>Consumer Goods</b>	<b>0.0%</b>	1.3%	1.6%	12.5%	4.3%	-2.9%
<b>High-Tech Equipment</b>	<b>0.6%</b>	0.1%	-0.3%	1.8%	1.0%	-10.4%
<b>Total Ex. High-Tech Equipment</b>	<b>0.0%</b>	0.6%	1.4%	8.5%	2.8%	-7.0%
				<b>3-mo Average</b>	<b>6-mo Average</b>	<b>12-mo Average</b>
<b>Cap Utilization (Total)</b>	<b>70.7</b>	70.5	70.0	70.4	69.5	70.4
<b>Manufacturing</b>	<b>67.6</b>	67.6	67.0	67.4	66.4	67.1

Source: Federal Reserve Board