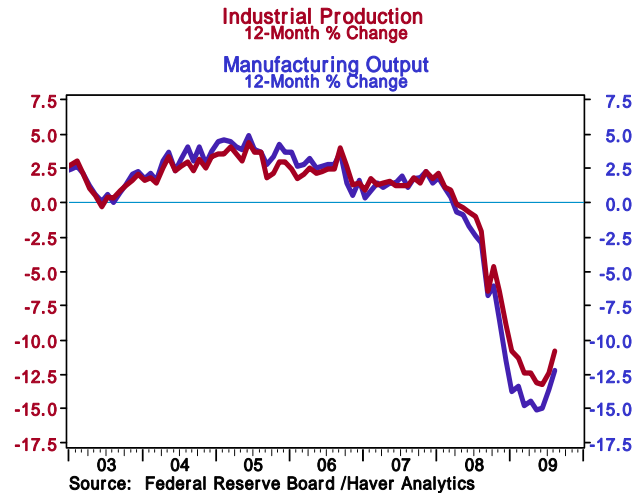


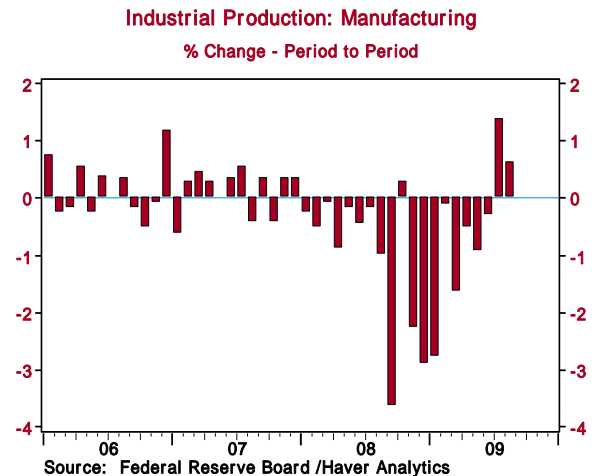
AUGUST INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.8% in August, beating the consensus expected gain of 0.6%. Production is down 10.8% versus a year ago, but is up two months in a row, at a 10.4% annual rate.
- Manufacturing output increased 0.6% in August. Motor vehicle/parts production rose 5.5% while manufacturing ex-autos increased 0.4%, the second straight monthly gain.
- The production of high-tech equipment declined 0.5% in August but was revised up sharply in previous months. High tech output is down 15.8% versus last year but is up at an 11.5% annual rate in the past three months.
- Overall capacity utilization increased to 69.6% in August, and was revised up for prior months, easily beating the consensus expected 68.9%. Manufacturing capacity utilization rose to 66.6% versus 66.1% in June.



Implications: It's the revenge of the smokestack. After the last two recessions (1990-91 and 2001), the service sector led while manufacturing lagged. This time around, it looks like the manufacturing sector is leading the way in this V-shaped recovery. Manufacturing production climbed for the second month in a row in August, and activity was revised upward for both June and July. This is not just cash-for-clunkers artificially and temporarily boosting auto production. In the past two months, manufacturing excluding motor vehicles/parts is up at a 5.6% annual rate. And the level of auto inventories is now so low that automakers will have to continue to boost production in the year ahead unless auto sales go all the way back down to anemic June levels (pre-“clunkers”) and remain there. Given that Americans were scrapping autos at about a 3.5 million annual rate faster than sales back in June, this is extremely unlikely.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-09	Jul-09	Jun-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.8%	1.0%	-0.4%	5.5%	-3.8%	-10.8%
Manufacturing	0.6%	1.4%	-0.3%	6.8%	-2.2%	-12.1%
Motor Vehicles and Parts	5.5%	20.0%	-3.7%	121.6%	28.3%	-20.2%
Ex Motor Vehicles and Parts	0.4%	0.5%	-0.1%	3.3%	-4.1%	-11.8%
Mining	0.5%	0.6%	-0.9%	0.8%	-11.7%	-10.5%
Utilities	1.9%	-1.5%	-0.5%	-0.8%	-4.3%	-0.2%
Business Equipment	0.6%	1.0%	-0.5%	4.6%	-10.3%	-14.7%
Consumer Goods	1.3%	0.7%	-0.3%	7.2%	-0.6%	-4.2%
High-Tech Equipment	-0.5%	2.4%	0.8%	11.5%	5.8%	-15.8%
Total Ex. High-Tech Equipment	0.8%	1.0%	-0.4%	5.3%	-4.1%	-10.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	69.6	69.0	68.3	69.0	69.0	71.1
Manufacturing	66.6	66.1	65.1	65.9	65.8	67.9

Source: Federal Reserve Board