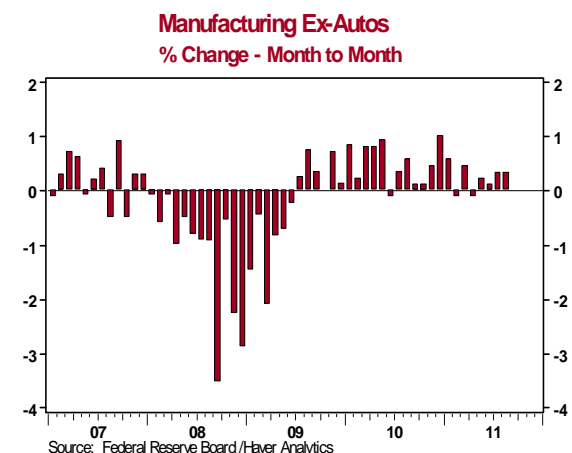
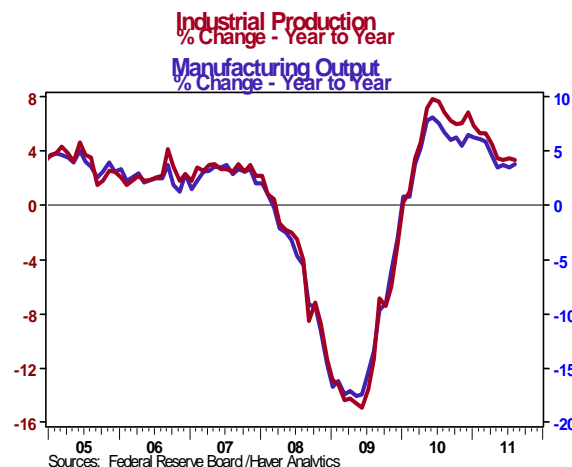


**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Senior Economist  
**Strider Elss** – Economic Analyst  
**Andrew Hull** – Economic Analyst

## August Industrial Production / Capacity Utilization

- Industrial production rose 0.2% in August, beating consensus expectations of no change. Including revisions to prior months though, production fell 0.2%. Output is up 3.3% in the past year.
- Manufacturing, which excludes mining/utilities, was up 0.4% in August, but up a smaller 0.2% including revisions to previous months. Auto production rose 1.7% in August. Non-auto manufacturing increased 0.3%. Auto production is up 7.2% versus a year ago and non-auto manufacturing has risen 3.5%.
- The production of high-tech equipment rose 1.5% in August and is up 7.0% versus a year ago.
- Overall capacity utilization rose to 77.4% in August from 77.3% in July. Manufacturing capacity use increased to 75.0% in August from 74.7% in July.

**Implications:** August's report on industrial production confirms that the Japan-related soft patch in manufacturing is over. Industrial production is up 3.3% in the past year but has accelerated in the past 3 months, up at a 4.4% annual rate. The August rise was fueled by a 1.7% expansion in auto production. Auto production is up at a 23% annual rate over the past three months showing that the supply-chain disruptions coming from Japan have completely ended. We expect more increases like this in the next few months. *Excluding autos*, manufacturing production increased 0.3% in August, and is up 3.5% versus a year ago. Today's report also showed that capacity utilization hit its highest level since August 2008, coming in at 77.4. As it did in 2010, the industrial sector has reasserted its leadership of the recovery. The rise in overall, nationwide production during August stands in sharp contrast to weak regional manufacturing surveys. The Empire State manufacturing index fell to -8.8 in September from -7.7 in August. The Philly Fed index was down 17.5 in September from -30.7 on August. We believe that purchasing managers surveys have become less reliable. They seem to be influenced more by emotion and uncertainty than they have in the past.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-11	Jul-11	Jun-11	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.2%</b>	0.9%	0.1%	4.4%	3.3%	3.3%
<b>Manufacturing</b>	<b>0.4%</b>	0.6%	0.1%	4.5%	2.9%	4.2%
<b>Motor Vehicles and Parts</b>	<b>1.7%</b>	4.5%	-0.9%	23.0%	1.7%	7.2%
<b>Ex Motor Vehicles and Parts</b>	<b>0.3%</b>	0.3%	0.1%	3.1%	2.7%	3.5%
<b>Mining</b>	<b>1.2%</b>	1.1%	0.5%	11.9%	12.0%	5.6%
<b>Utilities</b>	<b>-3.0%</b>	2.9%	-0.1%	-1.2%	-1.6%	-2.4%
<b>Business Equipment</b>	<b>0.7%</b>	1.1%	0.1%	8.2%	6.4%	9.4%
<b>Consumer Goods</b>	<b>0.2%</b>	0.9%	-0.4%	2.6%	1.5%	1.2%
<b>High-Tech Equipment</b>	<b>1.5%</b>	-0.9%	0.2%	3.3%	0.5%	7.0%
<b>Total Ex. High-Tech Equipment</b>	<b>0.2%</b>	1.0%	0.0%	4.9%	3.8%	3.2%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>77.4</b>	77.3	76.7	77.1	77.0	76.6
<b>Manufacturing</b>	<b>75.0</b>	74.7	74.4	74.7	74.6	74.1

Source: Federal Reserve Board