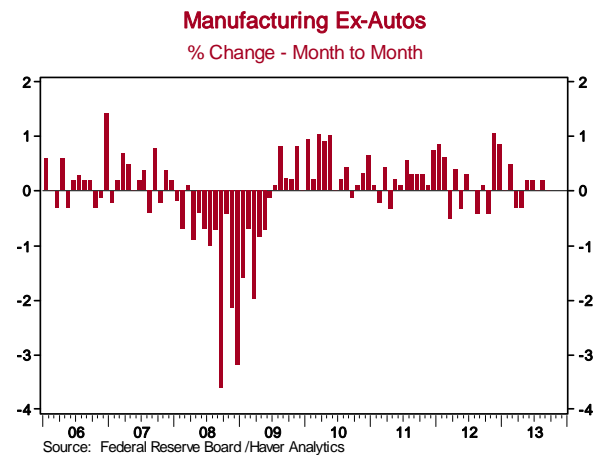
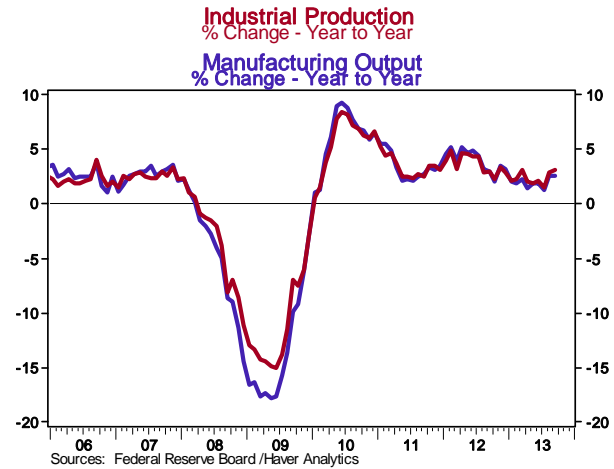


## September Industrial Production / Capacity Utilization

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- Industrial production rose 0.6% in September, coming in above the consensus expected 0.4% gain. Production is up 3.1% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.1% in September (unchanged including revisions to prior months). Auto production increased 2.0% in September, while non-auto manufacturing was unchanged. Auto production is up 11.2% versus a year ago while non-auto manufacturing is up 2.0%.
- The production of high-tech equipment declined 0.7% in September, but is up 7.3% versus a year ago.
- Overall capacity utilization rose to 78.3% in September from 77.9% in August. Manufacturing capacity remained at 76.1% in September.

**Implications:** Another solid report coming out of the industrial sector, although the strong headline was tempered by some mixed details. Industrial production rose 0.6% in September, the largest monthly increase since February, and is at the highest level since March 2008. However, taking out mining and utilities gives us manufacturing. This measure, although up a respectable 2.7% in the past year, was up only 0.1% in September. The gain in manufacturing in September was all due to soaring auto output, up 2% in September; non-auto manufacturing was unchanged. Notably, the recent acceleration of output is being led by business equipment rather than consumer goods, which signals a potential pick up in productivity growth in the year ahead. We expect continued gains in production as the housing recovery is still young and demand for autos and other durables remains strong. Over the past year, the auto sector has led the manufacturing gains, up 11.2%, but even manufacturing outside the auto sector has done OK, up 2%. We expect the gap between those two growth rates to narrow in the year ahead, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Capacity utilization increased to 78.3% in September and remains not far from the average of 79% in the past 20 years. Gains in production in the year ahead should push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing companies have the ability to make these investments. In other news this morning, pending home sales, which are contracts on existing homes, fell 5.6% in September, suggesting a drop in existing home closings in October. Even with this decline, however, we expect existing home sales to still be up 10% versus a year ago.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-13	Aug-13	Jul-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.6%</b>	0.4%	-0.1%	3.7%	1.8%	3.1%
<b>Manufacturing</b>	<b>0.1%</b>	0.5%	-0.4%	0.8%	1.0%	2.7%
<b>Motor Vehicles and Parts</b>	<b>2.0%</b>	5.2%	-5.2%	6.9%	6.6%	11.2%
<b>Ex Motor Vehicles and Parts</b>	<b>0.0%</b>	0.2%	0.0%	0.8%	0.6%	2.0%
<b>Mining</b>	<b>0.2%</b>	0.6%	1.6%	10.1%	10.8%	6.6%
<b>Utilities</b>	<b>4.4%</b>	-0.8%	-0.2%	14.1%	-4.2%	2.6%
<b>Business Equipment</b>	<b>1.3%</b>	0.5%	-0.8%	3.9%	2.8%	3.7%
<b>Consumer Goods</b>	<b>0.7%</b>	0.2%	-0.8%	0.4%	-0.8%	2.2%
<b>High-Tech Equipment</b>	<b>-0.7%</b>	0.9%	1.4%	6.4%	10.1%	7.3%
<b>Total Ex. High-Tech Equipment</b>	<b>0.6%</b>	0.4%	-0.1%	3.8%	1.7%	3.0%
<b>Cap Utilization (Total)</b>	<b>78.3</b>	77.9	77.7	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>76.1</b>	76.1	75.8	78.0	77.9	77.9
				76.0	76.0	76.0

Source: Federal Reserve Board