

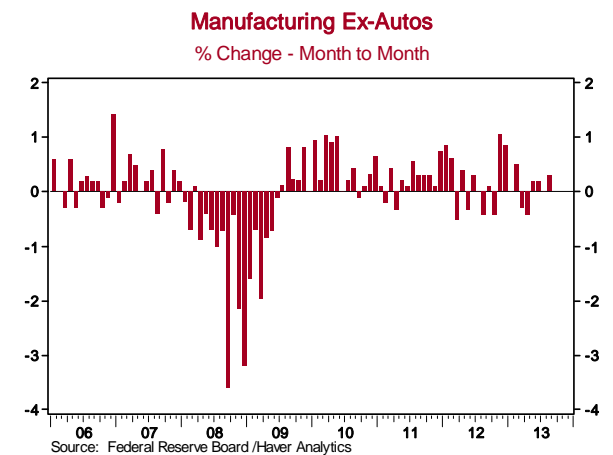
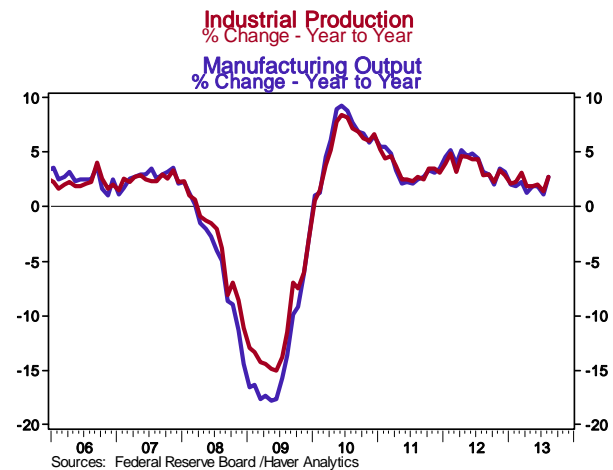
August Industrial Production / Capacity Utilization

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- Industrial production rose 0.4% in August and a higher 0.5% including revisions to prior months, basically matching the consensus expected 0.5% gain. Production is up 2.7% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.7% in August (0.6% including revisions to prior months). Auto production increased 5.2% in August, while non-auto manufacturing was up 0.3%. Auto production is up 8.4% versus a year ago while non-auto manufacturing is up 2.1%.
- The production of high-tech equipment rose 1.7% in August, and is up 9.9% versus a year ago.
- Overall capacity utilization rose to 77.8% in August from 77.6% in July. Manufacturing capacity use gained to 76.1% in August from 75.7% in July.

Implications: A strong report today coming out of the industrial sector after a few soft months. Industrial production rose 0.4% in August, was revised up for prior months, and is up a plow horse-like 2.7% from a year ago. Taking out mining and utilities gives us manufacturing. This measure was up an even faster 0.7% in August, and up 2.9% from a year ago. 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 8.4%, but even manufacturing outside the auto sector has done OK, up 2.1%. 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 77.8% in August 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 manufacturing news this morning, the Empire State index, a measure of manufacturing in New York, declined to +6.3 in September from +8.2 in August. This is a little below consensus expectations but shows continued growth.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-13	Jul-13	Jun-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.4%	0.0%	0.1%	2.0%	1.2%	2.7%
Manufacturing	0.7%	-0.3%	0.3%	2.9%	0.6%	2.9%
Motor Vehicles and Parts	5.2%	-4.5%	1.2%	7.0%	6.8%	8.4%
Ex Motor Vehicles and Parts	0.3%	0.0%	0.2%	2.1%	0.0%	2.1%
Mining	0.2%	2.4%	0.6%	13.6%	9.3%	7.4%
Utilities	-1.5%	-1.2%	-2.0%	-17.5%	-6.6%	-3.9%
Business Equipment	1.0%	-1.0%	0.8%	3.2%	1.0%	2.5%
Consumer Goods	0.2%	-0.4%	0.3%	0.4%	0.0%	2.3%
High-Tech Equipment	1.7%	1.3%	-0.1%	12.4%	14.2%	9.9%
Total Ex. High-Tech Equipment	0.4%	-0.1%	0.1%	1.7%	0.8%	2.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.8	77.6	77.8	77.7	77.8	77.7
Manufacturing	76.1	75.7	76.1	76.0	76.0	75.9

Source: Federal Reserve Board