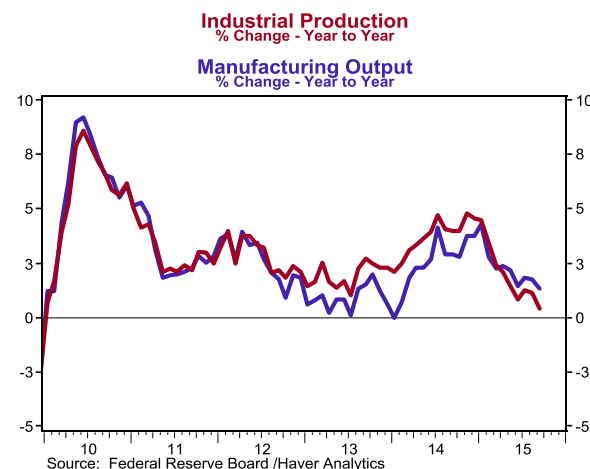


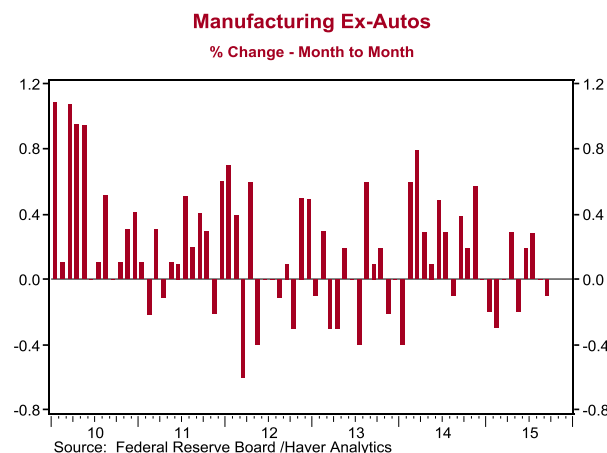
## September Industrial Production / Capacity Utilization

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- Industrial production declined 0.2% in September, matching consensus expectations. Including revisions to prior months, production was unchanged and is up 0.4% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.2% in September and rose 0.2% including revisions to prior months. Auto production rose 0.2% while non-auto manufacturing declined 0.1%. Auto production is up 9.4% versus a year ago while non-auto manufacturing is up 0.8%. Utility output rose 1.3% in September, while mining declined 2.0%.
- The production of high-tech equipment declined 0.4% in September and is down 1.1% versus a year ago.
- Overall capacity utilization fell to 77.5% in September from 77.8% in August. Manufacturing capacity utilization declined to 75.9% in September from 76.1% in August.



**Implications:** The most important part of today’s report on industrial production wasn’t the change in September itself, but upward revisions to prior months. Both overall production and manufacturing shrank slightly in September, as the consensus expected. But upward revisions to prior months mean the level of activity in September was higher than anticipated. Now that we have September figures, as well as those revisions, we can see that output was up at a 1.9% annual rate in the third quarter, consistent with our forecast that real GDP grew at Plow Horse 1.5% rate. Given lower oil energy prices, mining continues to be a headwind for the economy, dropping 2% in September, led by a 3.8% decline in drilling of oil and gas wells. However, we don’t think declines in drilling and extraction will last much longer. Productivity gains in energy production from new technologies continue to drive down costs on almost a daily basis. As oil prices bottom out, drilling activity should start to climb again, even if oil prices stay low relative to recent years. Meanwhile, utility output rose 1.3% in September due to warmer-than-usual temperatures, which boosted AC use. Cutting through the month-to-month volatility, overall industrial production and manufacturing ex-autos are up 0.4% and 0.8%, respectively, from a year ago, and the fundamentals favor further growth in the year ahead. Companies are sitting on huge cash reserves and corporate cash flow is at a record high.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-15	Aug-15	Jul-15	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	-0.2%	-0.1%	0.8%	1.9%	-0.2%	0.4%
<b>Manufacturing</b>	-0.2%	-0.4%	1.0%	1.9%	1.3%	1.3%
<b>Motor Vehicles and Parts</b>	0.2%	-5.4%	10.7%	20.9%	8.9%	9.4%
<b>Ex Motor Vehicles and Parts</b>	-0.1%	0.0%	0.3%	0.8%	1.0%	0.8%
<b>Mining</b>	-2.0%	0.0%	1.1%	-4.1%	-8.8%	-5.7%
<b>Utilities</b>	1.3%	1.4%	-1.4%	5.1%	-2.1%	1.0%
<b>Business Equipment</b>	-0.2%	0.7%	0.1%	2.3%	2.9%	1.8%
<b>Consumer Goods</b>	0.3%	-0.4%	1.6%	6.2%	1.7%	2.7%
<b>High-Tech Equipment</b>	-0.4%	-0.5%	0.5%	-1.5%	-0.8%	-1.1%
<b>Total Ex. High-Tech Equipment</b>	-0.2%	-0.2%	0.8%	1.9%	-0.4%	0.4%
				<b>3-mo Average</b>	<b>6-mo Average</b>	<b>12-mo Average</b>
<b>Cap Utilization (Total)</b>	77.5	77.8	78.0	77.8	77.7	78.2
<b>Manufacturing</b>	75.9	76.1	76.4	76.1	76.0	76.0

Source: Federal Reserve Board