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August Industrial Production / Capacity Utilization

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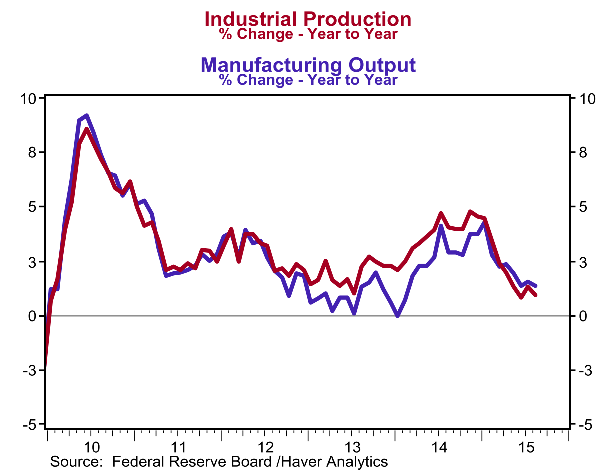
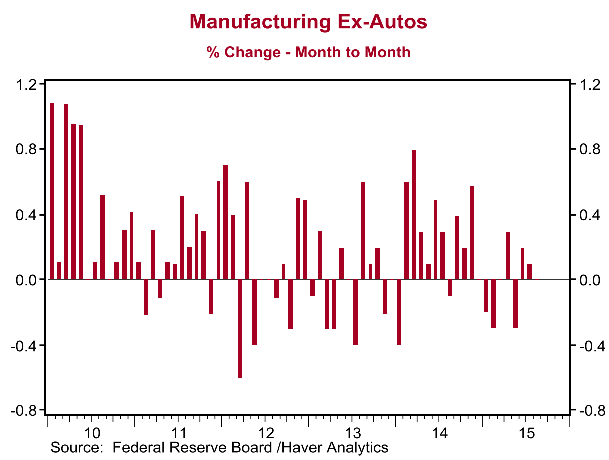
- Industrial production declined 0.4% in August, coming in below the consensus expected decline of 0.2%. Production is up 0.9% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.5% in August. Auto production declined 6.4% while non-auto manufacturing was unchanged. Auto production is up 6.9% versus a year ago while non-auto manufacturing is up 1.0%. Utility output rose 0.6% in August, while mining declined 0.6%.
- The production of high-tech equipment declined 0.4% in August and is down 0.7% versus a year ago.
- Overall capacity utilization fell to 77.6% in August from 78.0% in July. Manufacturing capacity utilization declined to 75.8% in August from 76.2% in July.





Implications: Overall industrial production and manufacturing output declined in August. But this shouldn't hold the Fed back from raising rates later this week. Today's numbers come on the back of a very strong July, which showed the fastest pace of growth so far this year. Even including the decline in August, production is up at a 1.9% annual rate in the past three months. Moreover, the 0.5% decline in manufacturing in August was all due to a 6.4% drop in auto production, which is very volatile from month to month. Manufacturing outside the volatile auto sector, the most useful part of the report, was unchanged in August. Meanwhile, utilities rose 0.6% while mining declined 0.6%. "Oil and gas extraction" dropped 1.6%, driving the decline in mining. However, "oil and gas well drilling" rose 1.7%, the second consecutive monthly increase. This gain may be short lived, however, if oil prices continue to fall. One issue is how fast costs decline for shale-related drilling. Productivity gains in energy production from new technologies continue to drive down costs on almost a daily basis. Oil prices should bottom out soon, in which case drilling activity may climb even if oil prices stay low. Overall industrial production and manufacturing ex-autos are up 0.9% and 1.0%, respectively, from a year ago, and the fundamentals favoring further growth remain in place. Companies are sitting on huge cash reserves and profits are close to record highs. Meanwhile, at 77.6%, capacity utilization remains close to the average of 78.6% over the past twenty years, so further gains in production will give companies an incentive to build out plants and buy equipment. Taken as a whole, today's data are consistent with our current estimate that real GDP grew at a 2% annual rate in the third quarter. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, came in at -14.7 in September, versus -14.9 in August. Look for other regional manufacturing reports to balance out the apparent declines in New York.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Aug-15	Jul-15	Jun-15	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.4%**	0.9%	0.0%	1.9%	-0.6%	0.9%
Manufacturing	**-0.5%**	0.9%	-0.1%	1.1%	1.5%	1.3%
Motor Vehicles and Parts	**-6.4%**	10.6%	-4.5%	-4.6%	13.0%	6.9%
Ex Motor Vehicles and Parts	**0.0%**	0.1%	0.2%	1.2%	0.6%	1.0%
Mining	**-0.6%**	1.8%	0.1%	4.9%	-5.6%	-3.2%
Utilities	**0.6%**	-0.1%	1.0%	6.0%	-8.3%	3.3%
Business Equipment	**-0.4%**	0.1%	-0.2%	-1.9%	1.1%	1.0%
Consumer Goods	**-0.4%**	1.4%	0.1%	4.7%	1.1%	2.6%
High-Tech Equipment	**-0.4%**	0.3%	0.5%	1.5%	-1.3%	-0.7%
Total Ex. High-Tech Equipment	**-0.4%**	0.8%	0.0%	1.9%	-0.6%	0.9%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.6**	78.0	77.4	77.7	77.8	78.2
Manufacturing	**75.8**	76.2	75.7	75.9	75.9	76.0

Source: Federal Reserve Board