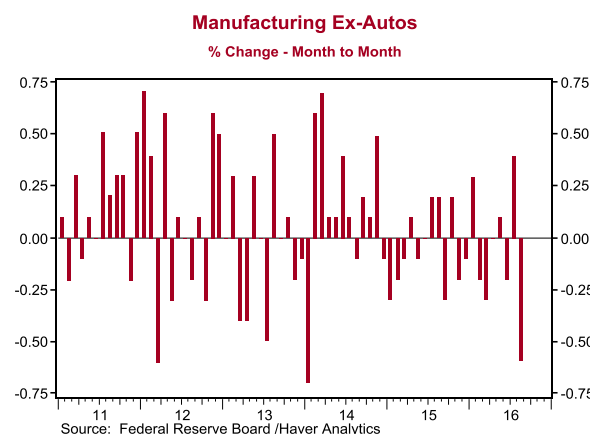
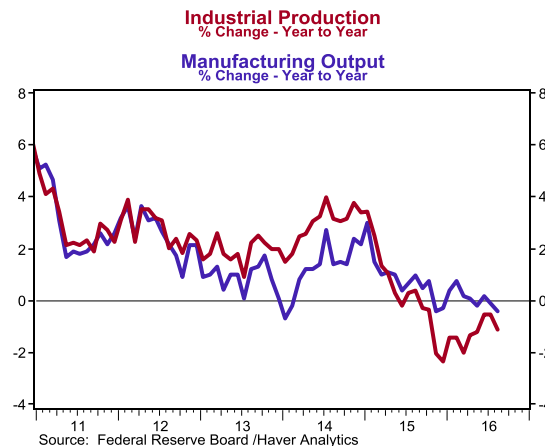


August Industrial Production / Capacity Utilization

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- Industrial production dropped 0.4% in August, coming in below the consensus expected decline of 0.2%. Utility output fell 1.4%, while mining increased 1.0%.
- Manufacturing, which excludes mining/utilities, declined 0.4% in August. Auto production rose 0.5% while non-auto manufacturing fell 0.6%. Auto production is up 4.7% versus a year ago while non-auto manufacturing is down 0.9%.
- The production of high-tech equipment increased 0.2% in August and is up 4.6% versus a year ago.
- Overall capacity utilization fell to 75.5% in August from 75.9% in July. Manufacturing capacity utilization fell to 74.8% in August from 75.2% in July.

Implications: After posting its largest gain in a year in July, industrial production took a breather in August, demonstrating the type of “fits and starts” recovery that has become familiar. While the headline number is still down 1.1% from a year ago, it is unchanged from six months ago and up at a 2.7% annual rate in the past three months, an acceleration that signals the sector may be leaving behind the headwinds related to the drop in oil prices in the past couple of years. One of the biggest drags on today’s number was non-auto manufacturing, which fell 0.6% in July, its largest drop since 2014. Auto output increased 0.5% in August, and is now up 30.5% at an annual rate in the past three months, hitting a new all-time record high. This helped curb the overall drop in manufacturing and signals strong auto sales in the months to come. Perhaps the best news was that mining production posted its fourth consecutive month of gains, jumping 1% in August, and is now up at a 6.3% annual rate in the past three months. This month’s gain was driven by both metal ore mining and petroleum and natural gas extraction. In fact, oil and gas-well drilling jumped 3.2% in August, and is now up at 38.6% annual rate in the past three months. While mining (and energy in general) has been a drag on production over the past year, we expect activity in that sector to grow in the year ahead as energy prices are well off the lows. Based on other commodity prices, oil prices should average at higher levels over the next several years. Although we don’t expect overall industrial production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect solid growth in the year ahead. In other recent news, the Empire State index, a measure of manufacturing sentiment in New York, rose to -2.0 in September from -4.2 in August. Meanwhile, the Philly Fed index, a measure of sentiment among East Coast manufacturers, jumped to +12.8 from +2.0. These reports signal we are not headed for a recession and the economy remains a Plow Horse.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-16	Jul-16	Jun-16	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Industrial Production	-0.4%	0.6%	0.5%	2.7%	0.0%	-1.1%
Manufacturing	-0.4%	0.4%	0.2%	0.8%	-0.6%	-0.4%
Motor Vehicles and Parts	0.5%	1.0%	5.3%	30.5%	4.3%	4.7%
Ex Motor Vehicles and Parts	-0.6%	0.4%	-0.2%	-1.6%	-1.2%	-0.9%
Mining	1.0%	0.2%	0.3%	6.3%	-5.4%	-9.4%
Utilities	-1.4%	2.1%	2.9%	15.4%	10.4%	1.6%
Business Equipment	-0.4%	0.1%	0.5%	0.8%	1.4%	-1.3%
Consumer Goods	-0.3%	0.5%	0.7%	3.5%	1.4%	0.1%
High-Tech Equipment	0.2%	1.2%	0.4%	7.4%	4.0%	4.6%
Total Ex. High-Tech Equipment	-0.5%	0.6%	0.5%	2.3%	-0.2%	-1.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	75.5	75.9	75.5	75.6	75.4	75.6
Manufacturing	74.8	75.2	75.0	75.0	75.0	75.2

Source: Federal Reserve Board