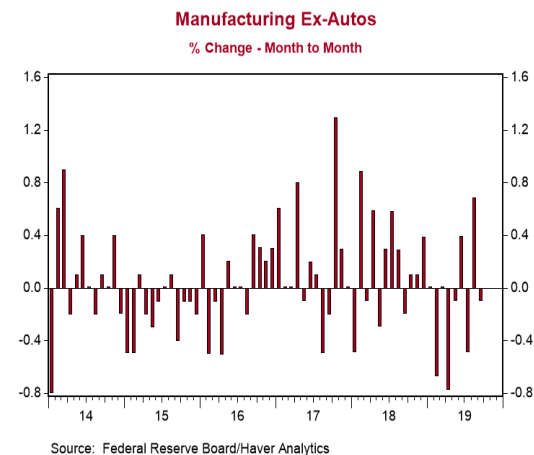
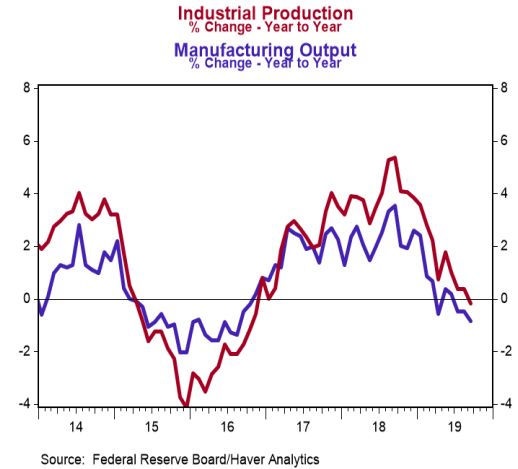


September Industrial Production / Capacity Utilization

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- Industrial production fell 0.4% in September, coming in below the consensus expected decline of 0.2%. Mining output fell 1.3% in September, while utilities rose 1.3%.
- Manufacturing, which excludes mining/utilities, declined 0.5% in September. Auto production declined 4.2%, while non-auto manufacturing fell 0.1%. Auto production is down 5.3% versus a year ago, while non-auto manufacturing is down 0.5%.
- The production of high-tech equipment rose 0.2% in September and is up 2.5% versus a year ago.
- Overall capacity utilization declined to 77.5% in September from 77.9% in August. Manufacturing capacity utilization fell to 75.3% in September from 75.7% in August.



Implications: Industrial production pulled back in September as the GM strike weighed on auto production. That said, the slowdown in activity was broad-based, with nearly every major category showing declines. With the strikes, autos led industrial production lower in September, declining 4.2%, while manufacturing excluding autos had a more muted decline of 0.1%. Putting the two series together shows overall manufacturing declined 0.5% in September and is down 0.9% from a year ago. This represents a considerable slowdown in the twelve-month growth rate since the end of 2018, and the same pattern can be seen in overall industrial production as the chart to the right shows. However, the slowdown has begun to taper off, and there is evidence that manufacturing activity may be turning a corner. Over the past five months, manufacturing has risen at a 1.2% annualized rate, a stark reversal from an annualized decline of 5.8% during the first four months of 2019. Despite all the recent doomsday predictions related to the US-China trade dispute, it's important to remember that we also saw a similar slowdown in 2015-16 during the oil price crash, and no recession materialized. And keep in mind that manufacturing is only responsible for about 11% of GDP and is much more sensitive to global demand than other sectors of the economy. Outside the manufacturing sector, mining activity fell 1.3% in September due to a slowdown in oil extraction and well drilling. But mining remains up 2.6% in the past year, with the fastest year-over-year growth of any major category. There were two exceptions to the slowdown in September, with utilities and high-tech equipment both continuing to show gains. Utilities rose 1.3% in September as unseasonably warm weather boosted demand for electricity. Utilities are up 1.1% in the past year. High-tech equipment production is up 2.5% in the past year, and up at a faster 7.9% annualized rate over the past three months. In other manufacturing news this morning, the Philly Fed Index, a measure of East Coast factory sentiment, dropped to still positive +5.6 in October from +12.0 in September.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-19	Aug-19	Jul-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.4%	0.8%	-0.2%	0.7%	-0.4%	-0.2%
Manufacturing	-0.5%	0.6%	-0.4%	-0.8%	-0.8%	-0.9%
Motor Vehicles and Parts	-4.2%	-1.0%	1.0%	-15.7%	-1.9%	-5.3%
Ex Motor Vehicles and Parts	-0.1%	0.7%	-0.5%	0.4%	-0.8%	-0.5%
Mining	-1.3%	2.4%	-2.4%	-5.3%	2.6%	2.6%
Utilities	1.3%	0.3%	4.2%	25.5%	0.0%	1.1%
Business Equipment	-0.7%	1.1%	-0.5%	-0.4%	-2.1%	-0.9%
Consumer Goods	-0.3%	0.1%	0.0%	-0.8%	-2.1%	-1.0%
High-Tech Equipment	0.2%	1.1%	0.6%	7.9%	2.4%	2.5%
Total Ex. High-Tech Equipment	-0.4%	0.7%	-0.2%	0.7%	-0.2%	-0.2%
Cap Utilization (Total)	77.5	77.9	77.4	3-mo Average	6-mo Average	12-mo Average
Manufacturing	75.3	75.7	75.4	77.6	77.7	78.4
				75.5	75.5	76.1

Source: Federal Reserve Board