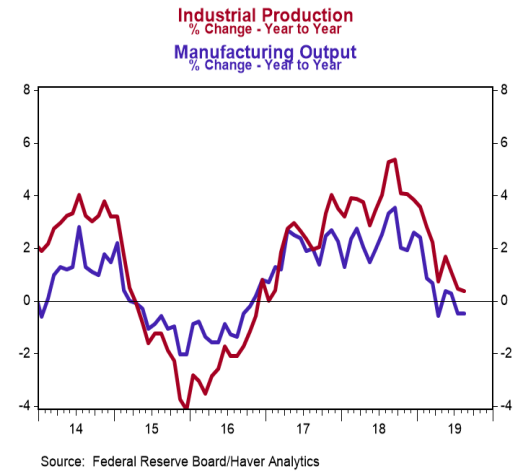


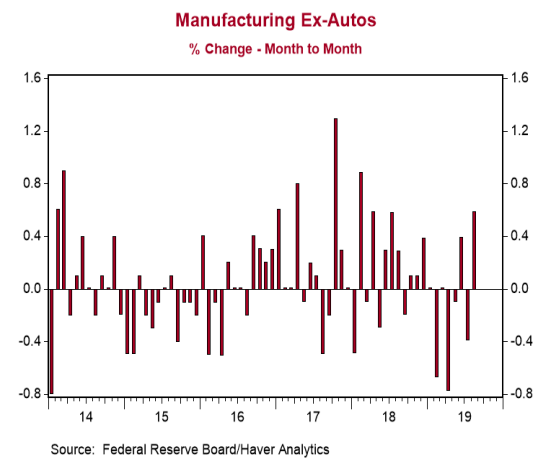
## August Industrial Production / Capacity Utilization

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- Industrial production increased 0.6% in August, easily beating the consensus expected gain of 0.2%. Mining output jumped 1.4% in August, while utilities rose 0.6%.
- Manufacturing, which excludes mining/utilities, increased 0.5% in August (+0.6% including revisions to prior months). Auto production declined 1.0%, while non-auto manufacturing rose 0.6%. Auto production is up 0.5% versus a year ago, while non-auto manufacturing is down 0.6%.
- The production of high-tech equipment rose 0.8% in August and is up 1.9% versus a year ago.
- Overall capacity utilization increased to 77.9% in August from 77.5% in July. Manufacturing capacity utilization rose to 75.7% in August from 75.4% in July.



**Implications:** Industrial production surged in August, easily beating consensus expectations to post its largest monthly increase in a year. And the details of the report were as good as the headline, with nearly every major category showing growth. The one exception came from auto manufacturing, which fell 1.0% in August. However, that comes on the heels of three consecutive months of strong gains, and auto production is still up 0.5% from a year ago. Meanwhile, the best news came from manufacturing outside the auto sector (which represents the majority of manufacturing activity) where production rose 0.6%, its largest monthly gain in over a year. Putting the two series together shows overall manufacturing increased 0.5% in August but is still down 0.5% 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 four months, manufacturing has risen at a 2.6% 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. 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. Finally, mining activity rebounded 1.4% in August following a sharp temporary decline in July due to hurricane Barry. In the past year, mining is still up 5.1%, showing the fastest year-over-year growth of any major category. Expect a further acceleration in the coming months as US shale drillers ramp up activity to fill the gap in production caused by the recent attacks on Saudi Arabia's oil infrastructure. In other news this morning, the Empire State Index, which measures factory sentiment in the New York region, fell to +2.0 in September from +4.8 in July. On the housing front, the NAHB index, which measures homebuilder sentiment, rose to 68 in September from 67 in July, an eleven-month high. This represents a significant and consistent rebound in optimism following the collapse in the index at the end of 2018.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-19	Jul-19	Jun-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.6%</b>	-0.1%	0.1%	2.6%	0.5%	0.4%
<b>Manufacturing</b>	<b>0.5%</b>	-0.4%	0.6%	2.7%	-0.2%	-0.5%
<b>Motor Vehicles and Parts</b>	<b>-1.0%</b>	0.5%	3.1%	11.1%	3.9%	0.5%
<b>Ex Motor Vehicles and Parts</b>	<b>0.6%</b>	-0.4%	0.4%	2.4%	-0.6%	-0.6%
<b>Mining</b>	<b>1.4%</b>	-1.5%	0.5%	1.8%	5.1%	5.1%
<b>Utilities</b>	<b>0.6%</b>	3.7%	-4.1%	0.0%	0.4%	-0.8%
<b>Business Equipment</b>	<b>1.0%</b>	-0.6%	0.6%	4.0%	1.0%	0.3%
<b>Consumer Goods</b>	<b>0.2%</b>	0.1%	0.6%	3.5%	0.4%	-0.4%
<b>High-Tech Equipment</b>	<b>0.8%</b>	0.7%	0.7%	9.1%	3.2%	1.9%
<b>Total Ex. High-Tech Equipment</b>	<b>0.6%</b>	-0.1%	0.1%	2.6%	0.7%	0.4%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>77.9</b>	<b>77.5</b>	<b>77.8</b>	<b>77.7</b>	<b>77.9</b>	<b>78.5</b>
<b>Manufacturing</b>	<b>75.7</b>	<b>75.4</b>	<b>75.8</b>	<b>75.6</b>	<b>75.7</b>	<b>76.2</b>

Source: Federal Reserve Board