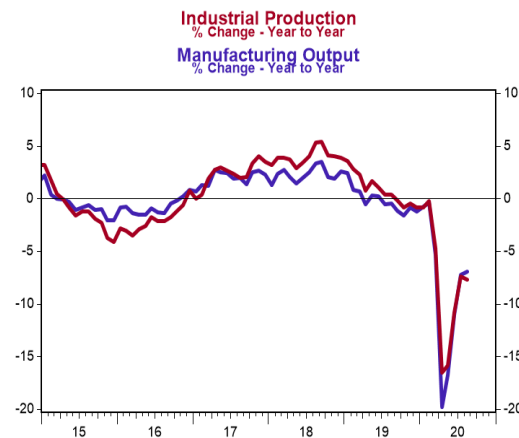


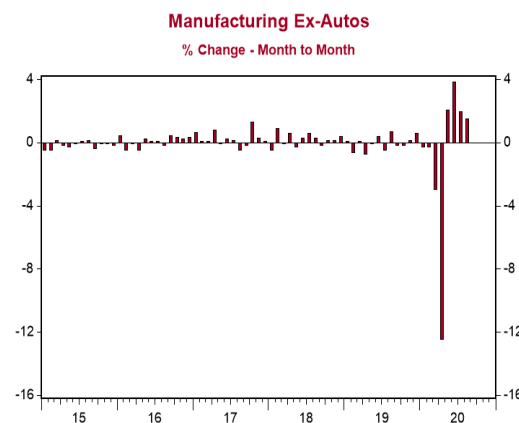
August Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- Industrial production increased 0.4% in August, below the consensus expected gain of 1.0% (+1.2% including revisions to prior months). Utilities output fell 0.4% in August, while mining declined 2.5%.
- Manufacturing, which excludes mining/utilities, increased 1.0% in August (+0.1% including revisions to prior months). Auto production declined 3.8%, while non-auto manufacturing rose 1.5%. Auto production is down 1.9% versus a year ago, while non-auto manufacturing is down 7.2%.
- The production of high-tech equipment increased 1.2% in August and is up 5.0% versus a year ago.
- Overall capacity utilization increased to 71.4% in August from 71.1% in July. Manufacturing capacity utilization rose to 70.2% in August from 69.5%.



Source: Federal Reserve Board/Haver Analytics



Source: Federal Reserve Board/Haver Analytics

Implications: Industrial production increased for a fourth consecutive month in August, continuing the ongoing recovery in the factory sector, though at a slower pace than the consensus expected. However, if you include upward revisions to prior months, August’s gain was 1.2% rather than the more tepid headline gain of 0.4%. Industrial production has now made up roughly 57% of the decline in activity seen during the height of COVID-19 lockdowns back in March and April. Meanwhile, the major source of strength in today’s report came from the manufacturing sector, and while downward revisions to activity in prior months sapped away most of August’s gain, the underlying details showed continued progress in the sector in most need of a further rebound. Auto production, which is volatile, fell 3.8% in August. However, some slowdown in this series was expected as it has already posted a full recovery from its April low. Meanwhile, non-auto manufacturing rose 1.5% in July, continuing a rapid pace of growth. That said, non-auto manufacturing is still lagging the overall recovery in industrial production, having only gained back roughly 54% of the decline in March and April, so we still have a ways to go until a full recovery. The biggest drag on industrial production came from outside the factory sector in August, with mining activity falling 2.5%. It looks like this was mostly the result of a sharp temporary decline in oil and gas extraction and drilling activity due to Tropical Storm Marco and Hurricane Laura, so look for a rebound in the months ahead. The good news for the beaten down oil and gas sector is that mining activity seems to have hit a bottom in May, and the number of drilling rigs in the US has leveled off after falling roughly 65% since the pandemic began, so it looks like most of the damage is behind us. As economic activity continues to rebound, demand for energy grows, and the surviving firms consolidate, mining eventually will be a tailwind for industrial production. In other factory-related news this morning, the Empire State Index, which measures factory sentiment in the New York region, rose to +17.0 in September from +3.7 in August. Also, this morning on the inflation front, import prices increased 0.9% in August, as fuel led the way rising 3.3%, while nonfuel imports rose 0.7%. Meanwhile, export prices increased 0.5%, led by nonagricultural exports, which rose 0.8%. In the past year, import prices are down 1.4%, though notably excluding petroleum these prices are now up 1.1%. Meanwhile, export prices are down 2.8%.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-20	Jul-20	Jun-20	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.4%	3.5%	6.1%	48.2%	-13.9%	-7.7%
Manufacturing	1.0%	3.9%	7.5%	61.1%	-12.9%	-6.9%
Motor Vehicles and Parts	-3.8%	31.7%	119.5%	5899.3%	-3.9%	-1.9%
Ex Motor Vehicles and Parts	1.5%	1.9%	3.8%	33.0%	-13.5%	-7.2%
Mining	-2.5%	1.4%	3.0%	7.6%	-32.0%	-18.0%
Utilities	-0.4%	3.8%	1.3%	20.5%	6.0%	0.6%
Business Equipment	1.9%	6.6%	11.8%	118.2%	-15.1%	-11.2%
Consumer Goods	0.4%	5.0%	8.3%	69.5%	-4.1%	-1.8%
High-Tech Equipment	1.2%	2.1%	2.3%	24.5%	8.9%	5.0%
Total Ex. High-Tech Equipment	0.4%	3.5%	6.2%	48.3%	-14.4%	-8.0%
Cap Utilization (Total)	71.4	71.1	68.7	3-mo Average	6-mo Average	12-mo Average
Manufacturing	70.2	69.5	66.9	70.4	68.9	73.1
				68.9	66.7	70.9

Source: Federal Reserve Board