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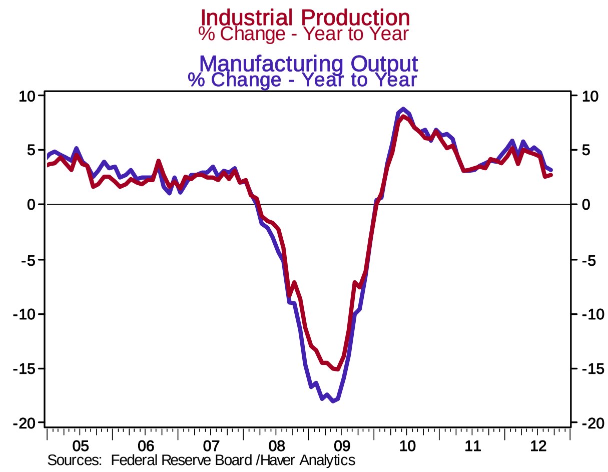
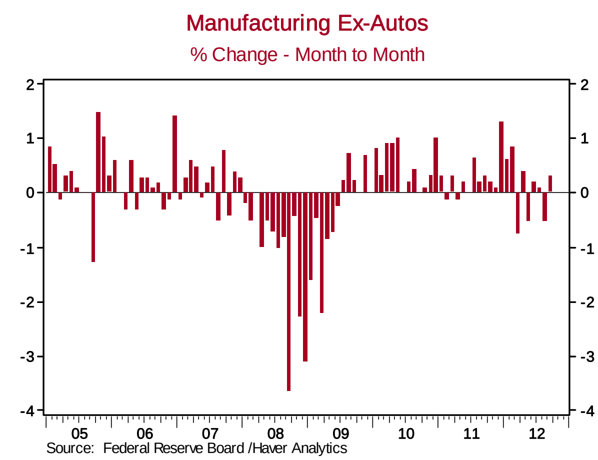
September Industrial Production / Capacity Utilization

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

- Industrial production rose 0.4% in September coming in above the consensus expected 0.2% gain. Production is up 2.8% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.2% in September (unchanged including slight downward revisions to prior months). Auto production fell 2.5% in September while non-auto manufacturing rose 0.3%. Auto production is still up 13.3% versus a year ago while non-auto manufacturing is up 2.4%.
- The production of high-tech equipment declined 0.6% in September and is down 5.1% versus a year ago.
- Overall capacity utilization moved up to 78.3% in September from 78.0% in August. Manufacturing capacity use was unchanged in September at 76.8%.





Implications: More plow horse like numbers on the economy today. Industrial production rose 0.4% in September, but this is nothing to write home about. Including downward revisions to prior months output rose a tepid 0.2%. Output at utilities and mines, which are volatile from month to month, rose 1.5% and 0.9%, respectively. Auto production, which is also very volatile, fell 2.5%, and is down at an 18.7% annual rate over the past three months. Manufacturing outside the auto sector – what we like to follow to reduce "statistical noise" – rose 0.3%. We believe production growth has been slowing lately due to uncertainty about future policy. High tech production was revised lower over the past few months. As a result, it now looks like business investment in equipment and software was down in the third quarter. This is something that usually only happens during recessions. We doubt we are in a recession; instead, business investment is likely down temporarily due to election uncertainty. Once the election is over, no matter who wins, we should have more certainty and, hopefully better policies on the way. Despite this, manufacturing remains up 3.6% from a year ago, including booming 13.3% in the auto sector and a respectable 2.4% ex-autos. Given relatively low inventories in the auto sector, we expect overall production to bounce back soon. Capacity utilization rose to 78.3%, and still remains higher than the 20 year average of 77.7%. This means companies have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Sep-12**	**Aug-12**	**Jul-12**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**0.4%**	-1.4%	0.7%	-1.6%	1.0%	2.8%
Manufacturing	**0.2%**	-1.0%	0.3%	-1.7%	0.4%	3.6%
Motor Vehicles and Parts	**-2.5%**	-5.2%	2.8%	-18.7%	-2.2%	13.3%
Ex Motor Vehicles and Parts	**0.3%**	-0.5%	0.1%	-0.4%	0.0%	2.4%
Mining	**0.9%**	-1.6%	1.0%	1.1%	2.2%	3.9%
Utilities	**1.5%**	-4.3%	2.8%	-0.4%	9.7%	-1.4%
Business Equipment	**0.8%**	-0.9%	0.1%	0.0%	7.4%	10.9%
Consumer Goods	**0.1%**	-1.6%	0.7%	-3.0%	0.9%	0.1%
High-Tech Equipment	**-0.6%**	-2.7%	-1.4%	-17.2%	-7.1%	-5.1%
Total Ex. High-Tech Equipment	**0.4%**	-1.3%	0.7%	-0.8%	1.3%	3.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.3**	78.0	79.2	78.5	78.7	78.5
Manufacturing	**76.8**	76.8	77.6	77.1	77.3	77.1

Source: Federal Reserve Board