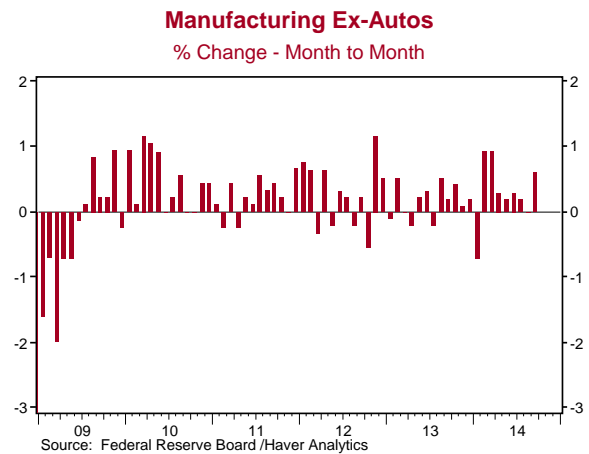
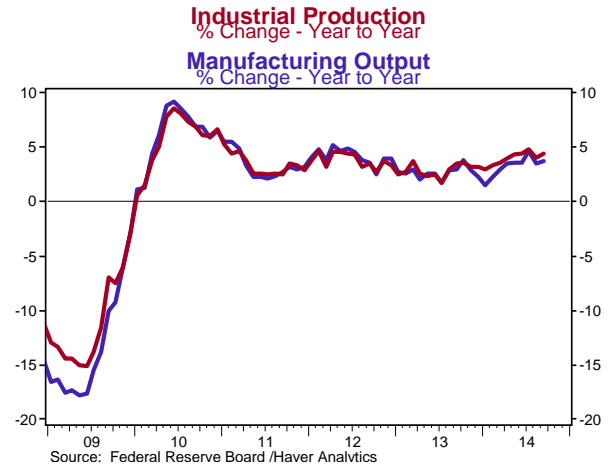


September Industrial Production / Capacity Utilization

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

- Industrial production increased 1.0% in September, easily beating the consensus expected gain of 0.4%. Production is up 4.4% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.5% in September (0.3% including revisions to prior months). Auto production fell 1.4% in September, but non-auto manufacturing rose 0.6%. Auto production is up 5.7% versus a year ago while non-auto manufacturing is up 3.5%.
- The production of high-tech equipment increased 0.8% in September and is up 6.1% versus a year ago.
- Overall capacity utilization increased to 79.3% in September from 78.7% in August. Manufacturing capacity utilization rose to 77.3% in September from 77.1% in August.

Implications: Despite recent turmoil in the equity markets, lots of good news on the economy this morning. Hold off on industrial production for a moment. Initial claims for unemployment insurance dropped 23,000 last week to 264,000, the lowest level since 2000. Companies might not be hiring like they would be with a better set of government policies and faster economic growth, but it looks like they've carefully hired the workers they want and are not letting go. Continuing claims increased 7,000 to 2.39 million. Plugging these figures into our payroll models suggests an October gain of about 255,000, another solid month. Now back to the factory sector, where industrial production soared 1% in September, easily beating consensus expectations. About half of the gain was due to strength at utilities and mines, which are very volatile from month to month, but manufacturing output grew 0.5% despite a 1.4% drop in the auto sector. One measure of the underlying trend is the non-auto manufacturing sector, which climbed 0.6% in September, has not dropped in any month since January (remember the brutal winter weather?), and is up 3.5% from a year ago. We expect continued growth in the industrial sector. The housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. Capacity utilization rose to 79.3% in September, which is higher than the average of 78.7% over the past twenty years. Further gains in production in the year ahead will push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. In other manufacturing news this morning, the Philly Fed Index, which measures factory sentiment in that region, stood at a still solid 20.7 in October versus 22.5 in September. The only blemish on today's economic news was the NAHB index, which measures sentiment among home builders. The index fell to 54 in October, reversing last month's surge to 59. However, the drop this month simply brought the index back down to where it was, on average in July and August.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-14	Aug-14	Jul-14	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.0%	-0.2%	0.2%	4.3%	3.9%	4.4%
Manufacturing	0.5%	-0.5%	0.8%	3.2%	3.8%	4.1%
Motor Vehicles and Parts	-1.4%	-6.9%	9.4%	1.4%	5.7%	5.7%
Ex Motor Vehicles and Parts	0.6%	0.0%	0.2%	3.3%	3.3%	3.5%
Mining	1.8%	0.4%	-0.1%	8.8%	14.2%	9.1%
Utilities	3.8%	1.2%	-3.0%	7.9%	-9.7%	0.9%
Business Equipment	0.3%	-0.2%	1.1%	5.0%	4.6%	4.6%
Consumer Goods	0.5%	-0.6%	0.4%	1.2%	-1.8%	2.2%
High-Tech Equipment	0.8%	0.2%	-0.7%	1.0%	8.0%	6.1%
Total Ex. High-Tech Equipment	1.0%	-0.2%	0.3%	4.4%	3.6%	4.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	79.3	78.7	79.1	79.0	79.1	78.8
Manufacturing	77.3	77.1	77.6	77.3	77.2	76.8

Source: Federal Reserve Board