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August Industrial Production / Capacity Utilization

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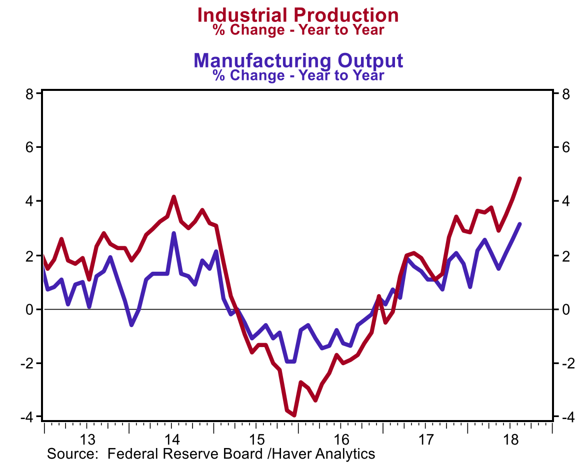
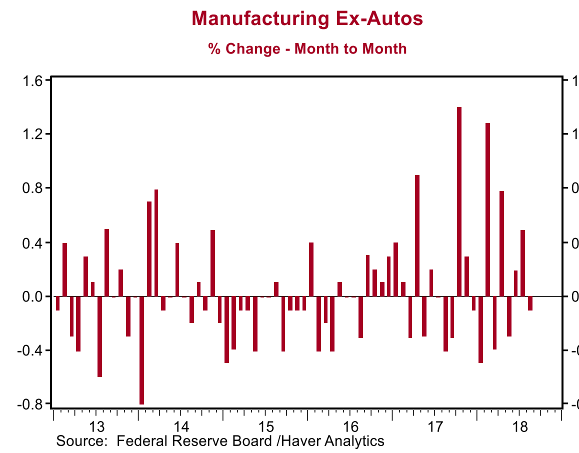
- Industrial production rose 0.4% in August (+0.2% including revisions to prior months), versus the consensus expected gain of 0.3%. Mining output rose 0.7% in August, while utilities increased 1.2%.
- Manufacturing, which excludes mining/utilities, rose 0.2% in August. Auto production jumped 4.1%, while non-auto manufacturing fell 0.1%. Auto production is up 7.6% versus a year ago, while non-auto manufacturing is up 2.8%.
- The production of high-tech equipment rose 0.4% in August and is up 7.3% versus a year ago.
- Overall capacity utilization rose to 78.1% in August from 77.9% in July. Manufacturing capacity utilization increased to 75.8% in August from 75.7% in July.





Implications: Industrial production extended its gains in August, posting its third consecutive month of growth to set a new record high. Industrial production data counts "units" of output, and is therefore a proxy for "real" growth. Taken as a whole, the August data suggests the recent strength in real GDP growth is sustainable. Looking closer at the details of today's report shows that manufacturing, which makes up the largest part of overall production, rose 0.2% in August. However, the gain was entirely due to a 4.1% jump in the volatile auto production series. Excluding autos, manufacturing growth would have been flat, according to the Federal Reserve. That said, in the past year manufacturing activity is up 3.2%, while manufacturing ex-autos is up 2.8%, both of which represent the fastest 12-month increase since 2012 for their respective series. This demonstrates that the strength in overall manufacturing isn't just about the recent surge in auto production. Meanwhile, mining grew for the seventh month in a row to eclipse its prior peak in 2014, before a decline in oil prices reduced activity. Mining is now up 14.2% from a year ago, its largest 12 month gain since 1959! This comes as new information from the EIA shows the United States has just surpassed Russia and Saudi Arabia as the largest producer of crude oil in the world. Notably, this is all being done with roughly half the number of drilling rigs as before the 2014-2015 oil price crash, demonstrating the massive improvements in productivity that have occurred in just a few years.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Aug-18**	**Jul-18**	**Jun-18**	**3-mo % Ch** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Industrial Production	**0.4%**	0.4%	0.6%	5.7%	4.4%	4.8%
Manufacturing	**0.2%**	0.3%	0.7%	5.1%	1.5%	3.2%
Motor Vehicles and Parts	**4.1%**	-1.5%	7.1%	45.5%	2.7%	7.6%
Ex Motor Vehicles and Parts	**-0.1%**	0.5%	0.2%	2.4%	1.4%	2.8%
Mining	**0.7%**	0.7%	1.8%	13.2%	12.3%	14.2%
Utilities	**1.2%**	0.1%	-1.5%	-1.1%	14.7%	4.8%
Business Equipment	**1.2%**	0.4%	2.3%	16.5%	5.6%	4.2%
Consumer Goods	**0.3%**	0.5%	0.7%	5.9%	1.5%	2.6%
High-Tech Equipment	**0.4%**	-0.3%	1.5%	6.8%	5.9%	7.3%
Total Ex. High-Tech Equipment	**0.4%**	0.4%	0.6%	5.4%	4.4%	4.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.1**	77.9	77.8	77.9	77.8	77.3
Manufacturing	**75.8**	75.7	75.5	75.7	75.6	75.3

Source: Federal Reserve Board