



Economics Group

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Jump in Auto Output Boosts Overall Industrial Production

A 0.7 percent increase in factory output helped lift overall industrial production up 0.4 percent in August. With critical fiscal policy dates approaching and change at the FOMC, what is next for manufacturing?

Manufacturing Output on the Rise

The 0.7 percent jump in manufacturing production more than offset a decline of 0.4 percent in July and was strong enough to offset another monthly decline in utilities output. The cooler-than-usual weather this spring and summer has resulted in five consecutive monthly declines for this component that comprises about a tenth of all industrial production.

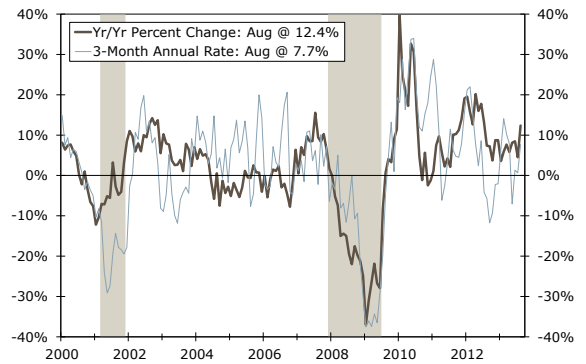
Within manufacturing the hero was motor vehicle and parts production, which jumped 5.2 percent in August. Before we start flexing our muscles on auto output, it pays to remember that this series fell 4.5 percent last month and the timing-or just plain skipping-of summer shutdowns can be contributing to the volatility. Stripping out auto sales, manufacturing production increased 0.4 percent. There still remains a fair amount of slack in the factory sector, but capacity utilization rose to 77.8 percent in August, a level that signals improvement

Outlook for Orders & Production

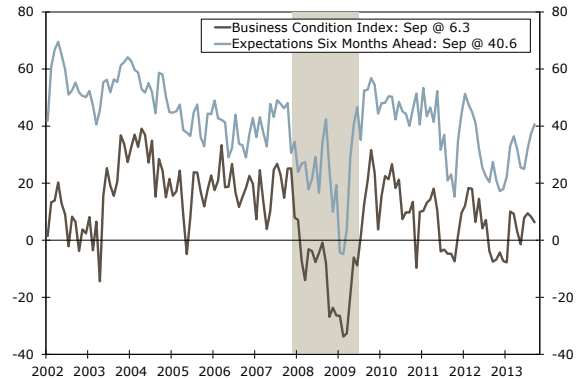
Four years ago at roughly this time of the year the economic cycle bottomed. In the early years of that recovery, it was industrial production and business spending that were key drivers of growth. As the recovery gave way to expansion and as other parts of the economy improved, industrial production plateaued over the past 12 months or so. Today's report gives us a greater degree of confidence that industrial production is poised to shift back into growth mode. This conviction is also supported by various purchasing managers' surveys, both regional and national, which were all signaling expansion in the month of August. Earlier this morning, the Empire survey from the New York Federal Reserve offered a preliminary read of September confidence, which showed that activity continues to expand. While the headline reading for Empire was a shade weaker (6.29 in September vs. 8.24 the month prior), the forward looking measure jumped to its highest level since April 2012.

Last year, congressional wrangling over budget issues resulted in what Fed Chairman Bernanke referred to as the "Fiscal Cliff"—an unsavory combination of tax hikes and federal spending cuts. The impact on manufacturing was significant. As the third graph shows, orders of core capital goods plunged, and it took a few months before the pace of orders was once again running ahead of shipments. A similar hit to manufacturing cannot be ruled out with the approach of the debt ceiling and another potential round of sequestration. Perhaps the fact that businesses went through the fiscal cliff last year and lived to fight another day may soften the blow somewhat if we should reach another impasse in this year's budget negotiation. Either way, business confidence depends largely on policy cues which could get choppy in the coming months.

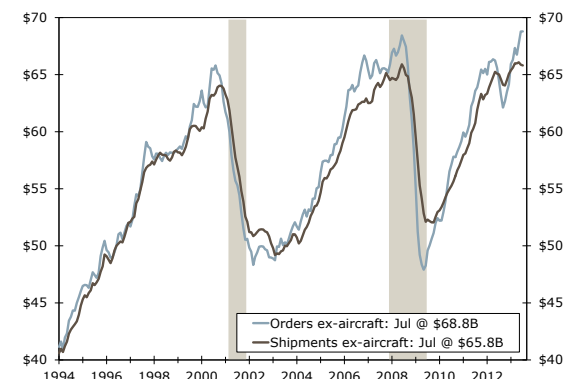
Industrial Production - Motor Vehicles & Parts
Output Growth by Volume



New York Mfg. General Business Conditions
Diffusion Index of Current Conditions and Six Months Ahead



Nondefense Capital Goods Orders vs. Shipments
Ex-Aircraft, Series are 3-Month Moving Averages in Billions



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