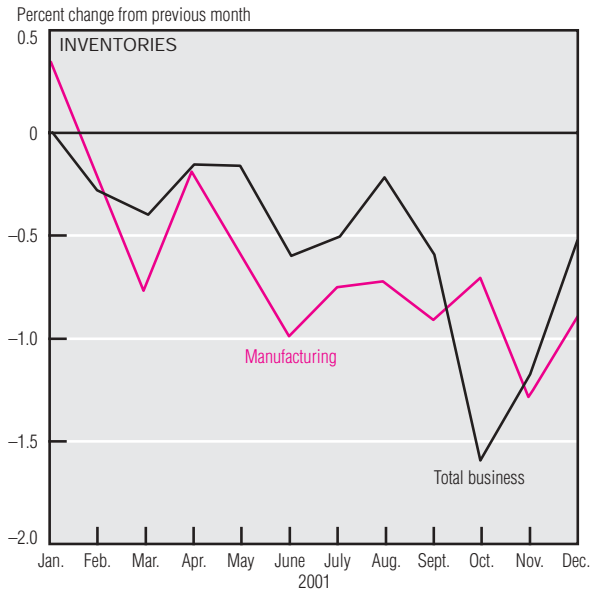
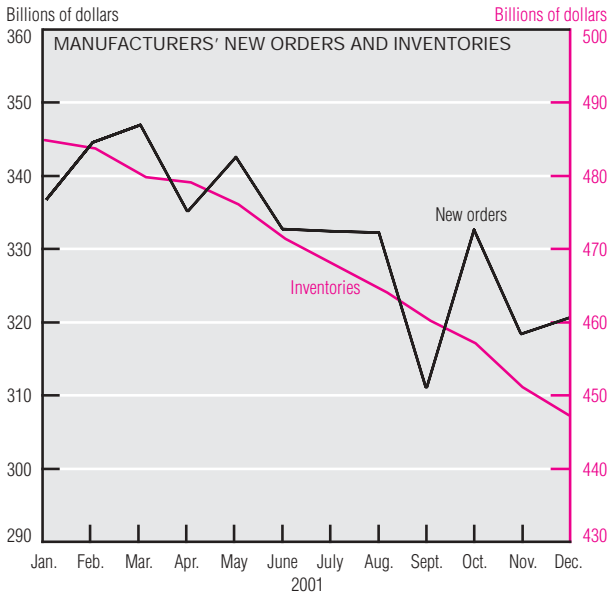
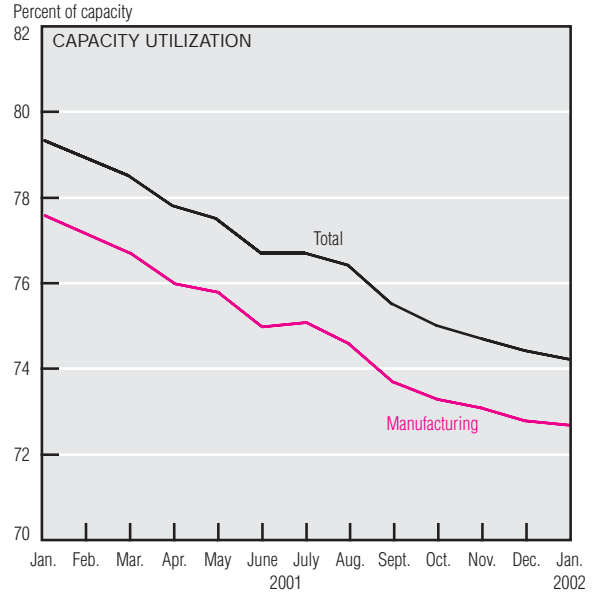
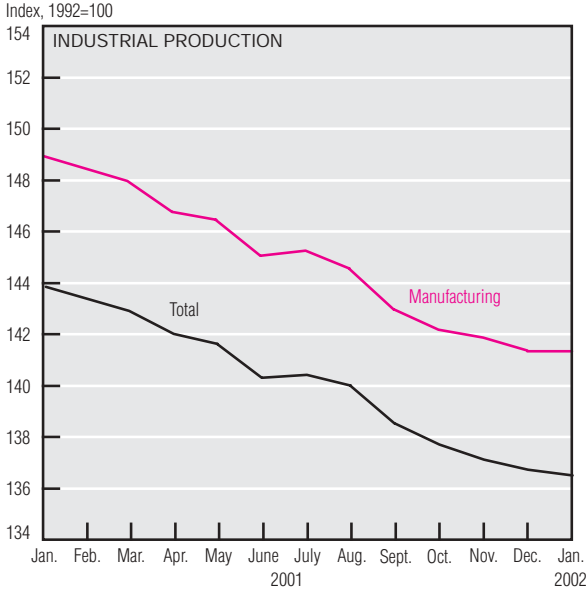


Industrial Production



NOTE: All data are seasonally adjusted.
 SOURCES: U.S. Department of Commerce, Bureau of the Census; and Board of Governors of the Federal Reserve System.

Industrial production refers to the output of the economy's manufacturing, mining, and utility sectors. Since October 2000, manufacturing output has fallen every month except July 2001 and January 2002, the most recent month for which data are available. Manufacturing accounts for about 87% of total industrial production, so it is not surprising that movements in industrial production match those in manufacturing. Since October 2000, industrial production fell every month except July 2001, when it was essentially flat.

As one might suspect, capacity utilization is strongly related to production. Except July 2001, capacity utilization for industrial production has fallen continuously since October 2000. During the same period, capacity utilization for manufacturing has fallen every month except July 2001.

Firms meet demand for their product—which can be gauged by new orders—by adjusting their production and/or inventories. Over the last year, industrial firms have responded to lower demand by reducing both the amount they produce and the size of

their inventories. Since January 2001, manufacturing inventories have declined about 7.8%. This implies that total manufacturing sales exceeded production in 2001, the difference being made up by lower inventories. Although industrial firms made a conscious decision to cut inventories, the percent change in inventories varied widely from one month to another. Over the past year, total business inventories, as measured by the percent change from the previous month, fluctuated between a small positive number and -1.6%.