



# FEDERAL RESERVE

statistical release

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## REVISED INDEXES OF MANUFACTURING CAPACITY AND CAPACITY UTILIZATION

The Board's indexes of capacity and capacity utilization in U.S. manufacturing industries have been revised. The effect of the revisions has been to lower utilization estimates slightly for the recent period and to raise them moderately for the period 1948-54. The indexes are now reported in figures to the nearest tenth of a point, rather than rounded to the nearest point as in earlier releases. The purpose of this change is to make it possible to observe gradual changes. No increased accuracy is implied.

The indexes have been described in full in the November 1966 issue of the Federal Reserve Bulletin. Their calculation may be described briefly. For each of the two subgroups of manufacturing--primary-processing industries and advanced-processing industries--a first-approximation capacity series is constructed by dividing seasonally adjusted December values for the Federal Reserve production index by the corresponding year-end operating rate taken from the annual McGraw-Hill survey. The first-approximation capacity series controls the level and trend of the final capacity estimates.

A capital stock series and a McGraw-Hill series on yearly capacity changes are used to smooth and to extrapolate the capacity estimates. Because these two series are believed to be subject to long-run bias as indicators of capacity, they are adjusted in level and trend to conform to the first-approximation series mentioned above. The two resulting capacity estimates are then averaged to obtain the final capacity estimates. Quarterly capacity figures are straight-line interpolations between the end-of-year estimates. Capacity utilization rates are obtained by dividing quarterly production indexes by the corresponding capacity figures. For total manufacturing both the capacity series and the capacity utilization series are weighted averages of the corresponding series for the two subgroups.

The capacity index is subject to revision when the results of new McGraw-Hill surveys and more recent investment information provide the basis for a change in the capacity estimates. An additional factor affecting the revision this year is the exclusion of that portion of the petroleum industry's capital used in petroleum extraction from the capital stock figure for primary-processing industries. Petroleum extraction is not a manufacturing activity, and its earlier inclusion had not been consistent with the investment and production series used.