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November Industrial Production / Capacity Utilization

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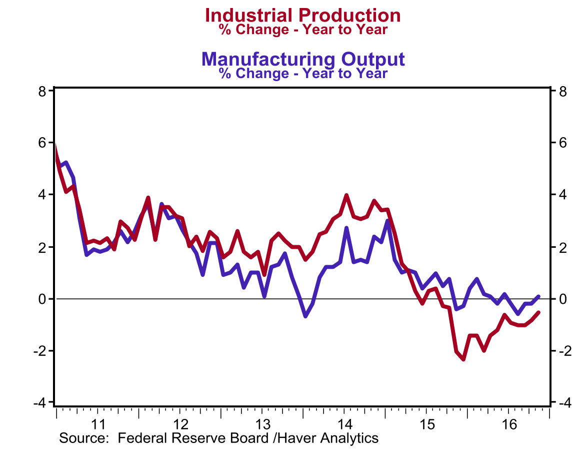
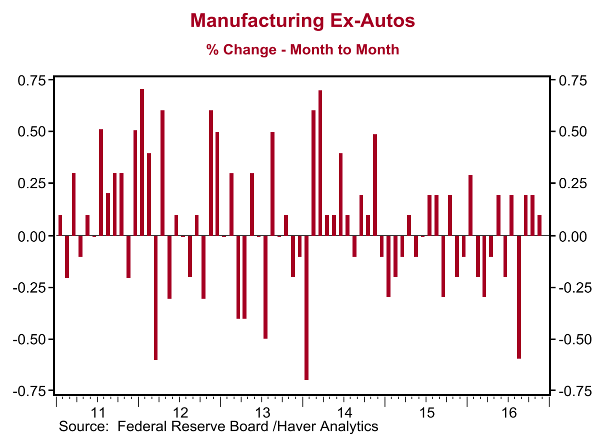
- Industrial production declined 0.4% in November, coming in slightly below the consensus expected decline of 0.3%. Utility output fell 4.4%, while mining increased 1.1%.
- Manufacturing, which excludes mining/utilities, was unchanged in November. Auto production fell 2.3% while non-auto manufacturing increased 0.1%. Auto production is up 4.4% versus a year ago while non-auto manufacturing is down 0.3%.
- The production of high-tech equipment increased 0.2% in November and is up 5.4% versus a year ago.
- Overall capacity utilization fell to 75.0% in November from 75.4% in October. Manufacturing capacity utilization fell to 74.8% in November from 74.9% in October.





Implications: Industrial production sagged in November, but this is not a sign of a slowing economy. The primary culprits behind the decline of 0.4% were utilities and autos, both of which are very volatile from month to month. This November was the warmest in the lower 48 states since 1999, which held down electrical power generation and natural gas distribution. Meanwhile, after climbing five months in a row, auto production was due for a retreat. We like to follow something we call "core" industrial production, which is manufacturing excluding autos, and that rose 0.1% in November, for a third straight gain. Although it's down 0.3% versus a year ago, it's been held down by the lagged effect of lower oil prices on the energy sector and that headwind has started to dissipate. The rebound in energy prices is also having a direct effect on mining, which is up for the second month in a row and up at a 12% annual rate in the past three months. This month's gain in mining was driven almost entirely by oil and natural gas extraction. Oil and gas-well drilling posted its sixth consecutive gain in November, jumping 5.1%, and is now up a massive 112.8% annual rate in the past three months. Based on other commodity prices, we think oil prices have further to rise and should average at higher than current levels for the next few years. Although weak overseas economies will continue to be a headwind for production, we expect solid growth in the year ahead. In other news this morning, business inventories took a breather in October, falling 0.2%. This may dampen real GDP growth in the last quarter of the year, but low inventories will help boost growth in 2017.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Nov-16	Oct-16	Sep-16	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.4%**	0.1%	-0.2%	-2.3%	0.4%	-0.6%
Manufacturing	**0.0%**	0.3%	0.1%	1.6%	0.8%	0.1%
Motor Vehicles and Parts	**-2.3%**	0.9%	0.3%	-4.2%	12.7%	4.4%
Ex Motor Vehicles and Parts	**0.1%**	0.2%	0.2%	2.0%	-0.2%	-0.3%
Mining	**1.1%**	1.9%	-0.1%	12.0%	7.1%	-4.6%
Utilities	**-4.4%**	-2.8%	-2.8%	-33.3%	-7.9%	-1.9%
Business Equipment	**-0.2%**	0.0%	-0.2%	-1.6%	-0.6%	0.2%
Consumer Goods	**-0.5%**	-0.1%	-0.2%	-3.0%	0.4%	0.9%
High-Tech Equipment	**0.2%**	0.8%	0.7%	6.6%	6.0%	5.4%
Total Ex. High-Tech Equipment	**-0.5%**	0.0%	-0.2%	-2.7%	0.0%	-0.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**75.0**	75.4	75.4	75.3	75.4	75.4
Manufacturing	**74.8**	74.9	74.8	74.8	74.9	75.0

Source: Federal Reserve Board