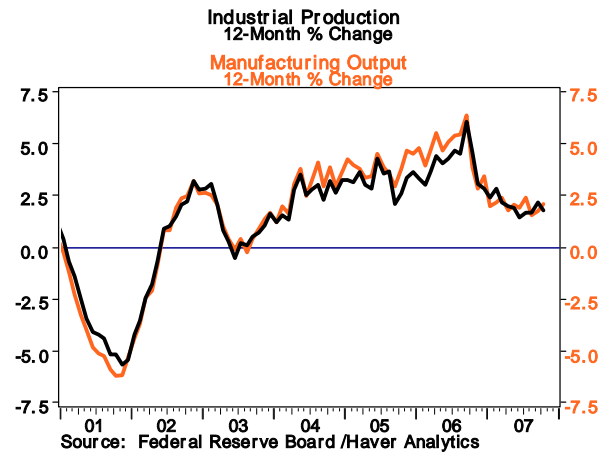


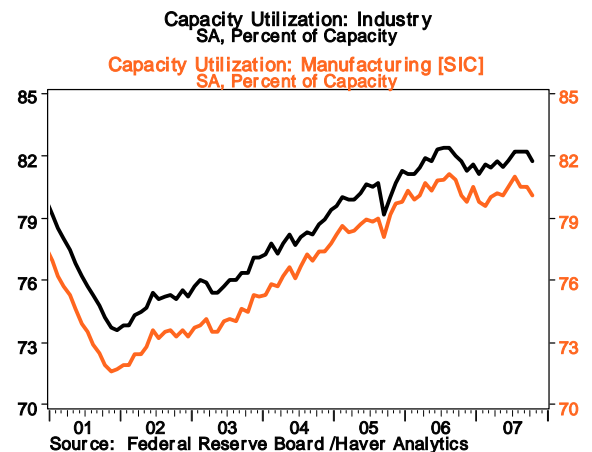
## OCTOBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 0.5% in October, much lower than the consensus expected gain of 0.1%. Industrial production is up 1.8% versus last year.
- Manufacturing output declined 0.4% in October but is up 2.1% versus last year. The production of high-tech equipment grew 0.5% in October and the September gain in high-tech was revised up to 1.1% versus a previously estimated 0.4%. High-tech production is up 15.8% versus last year.
- Capacity utilization fell to 81.7% in October versus an upwardly revised 82.2% in September and a consensus expected 82.0%. In the manufacturing sector, capacity utilization declined to 80.1% versus an upwardly revised 80.5% in September.



**Implications:** Today's report on industrial output was not good, but the sky is not falling. Due to a large inventory build in Q3, we have been forecasting real GDP will grow at a 2.5% annual rate in Q4, slower than the previous two quarters, as firms work off stockpiles. For 2008, we still forecast a 3.5% growth rate for real GDP. In the past, inventory cycles used to run for several quarters in a row, sometimes leading to huge excess stockpiles and then steep slowdowns and recessions. Now, due to information technology, businesses can keep a closer eye on stockpiles and inventory cycles are often one quarter events. Note that today's weak data are for October. Yesterday's reports on manufacturing activity in New York State and the Philadelphia Federal Reserve Bank region both showed healthy manufacturing growth in November.



<b>Industrial Production Capacity Utilization</b> <i>All Data Seasonally Adjusted</i>	<b>Oct-07</b>	<b>Sep-07</b>	<b>Aug-07</b>	<b>3-mo % Ch annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Industrial Production</b>	-0.5%	0.2%	0.1%	-0.7%	1.6%	1.8%
<b>Manufacturing</b>	-0.4%	0.2%	-0.4%	-2.7%	1.7%	2.1%
<b>Motor Vehicles and Parts</b>	-0.9%	-3.0%	-1.4%	-19.3%	-5.1%	0.9%
<b>Ex Motor Vehicles and Parts</b>	-0.3%	0.4%	-0.4%	-1.4%	2.3%	2.2%
<b>Mining</b>	-0.6%	0.6%	0.0%	0.0%	2.2%	0.4%
<b>Utilities</b>	-1.6%	-0.1%	5.3%	14.7%	0.4%	0.1%
<b>Business Equipment</b>	-0.1%	0.8%	-0.4%	1.2%	5.3%	4.6%
<b>Consumer Goods</b>	-0.6%	-0.2%	-0.1%	-3.6%	-0.9%	1.3%
<b>High-Tech Equipment</b>	0.5%	1.1%	0.9%	10.1%	20.3%	15.8%
<b>Total Ex. High-Tech Equipment</b>	-0.6%	0.2%	0.1%	-1.5%	0.7%	1.0%
<b>Cap Utilization (Total)</b>	<b>81.7</b>	<b>82.2</b>	<b>82.2</b>	<b>3-mo Average</b>	<b>6-mo Average</b>	<b>12-mo Average</b>
<b>Manufacturing</b>	<b>80.1</b>	<b>80.5</b>	<b>80.5</b>	82.0	81.9	81.7
				80.4	80.5	80.2

Source: Federal Reserve Board

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