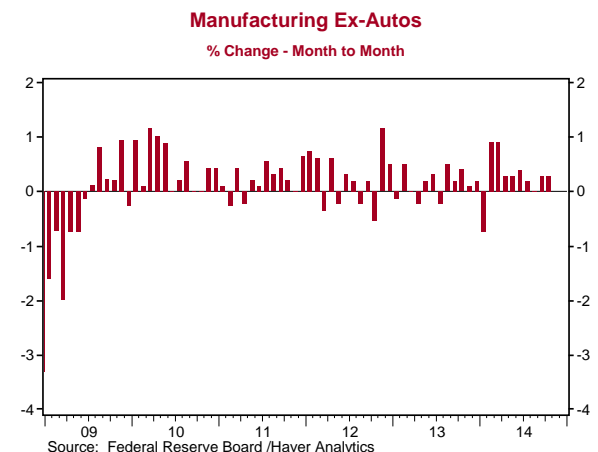
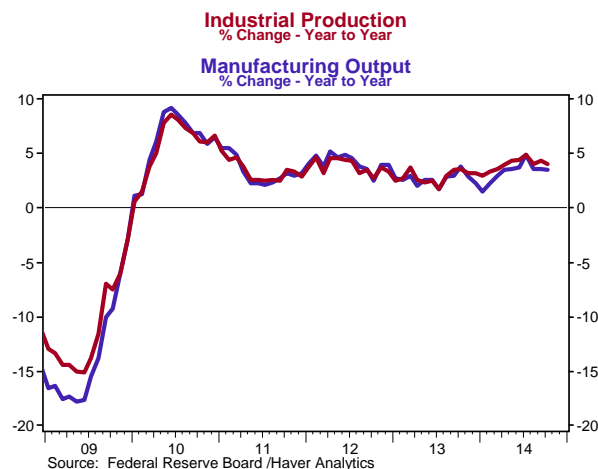


October Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Industrial production declined 0.1% in October, -0.2% including revisions to prior months, coming in below the consensus expected gain of 0.2%. Production is up 4.1% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.2% in October (0.1% including revisions to prior months). Auto production fell 1.2% in October, but non-auto manufacturing rose 0.3%. Auto production is up 4.7% versus a year ago while non-auto manufacturing is up 3.3%.
- The production of high-tech equipment increased 0.5% in October and is up 4.8% versus a year ago.
- Overall capacity utilization declined to 78.9% in October from 79.2% in September. Manufacturing capacity utilization declined to 77.2% in October from 77.3% in September.

Implications: Please feel free to ignore the headline decline in industrial production in October. Despite a slowdown in some of the rest of the world, the sky is not falling on the US economy. The 0.1% decline in output in October was driven by the most volatile parts of the report – utilities, mining, and auto production – all of which were down. Stripping out these three volatile sectors and only looking at manufacturing outside of autos, production was up a Plow Horse 0.3% in October and is up 3.3% versus a year ago. In the past 15 months, this key measure has only declined once, and that was last January during the worst of the unusually brutal winter. We expect continued growth in the industrial sector in the year ahead. The housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. Despite a drop in October, capacity utilization still stands at 78.9%, right at the average over the past twenty years. Further gains in production in the year ahead will push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, rose to 10.2 in November versus 6.2 in October. The bottom line is that the trend in the industrial sector is up, not down, and we expect the top-line of the report to show a solid rebound next month.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-14	Sep-14	Aug-14	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.8%	-0.2%	2.3%	3.3%	4.1%
Manufacturing	0.2%	0.2%	-0.4%	0.0%	3.2%	3.7%
Motor Vehicles and Parts	-1.2%	-1.9%	-7.1%	-34.2%	1.6%	4.7%
Ex Motor Vehicles and Parts	0.3%	0.3%	0.0%	2.4%	3.1%	3.3%
Mining	-0.8%	1.5%	0.5%	4.7%	7.0%	9.9%
Utilities	-0.7%	4.2%	0.7%	18.1%	-1.0%	-1.3%
Business Equipment	0.7%	-0.4%	-0.3%	0.0%	3.6%	4.6%
Consumer Goods	-0.2%	0.4%	-1.0%	-3.2%	-1.4%	1.4%
High-Tech Equipment	0.5%	-0.1%	-0.1%	1.0%	3.5%	4.8%
Total Ex. High-Tech Equipment	-0.1%	0.8%	-0.2%	2.0%	3.2%	4.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.9	79.2	78.8	79.0	79.1	78.9
Manufacturing	77.2	77.3	77.3	77.3	77.3	76.9

Source: Federal Reserve Board