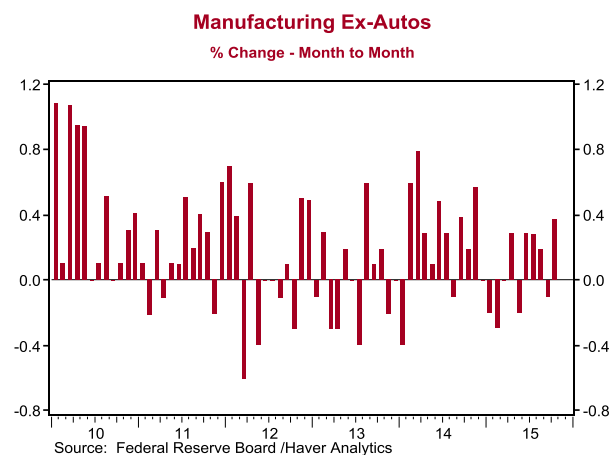
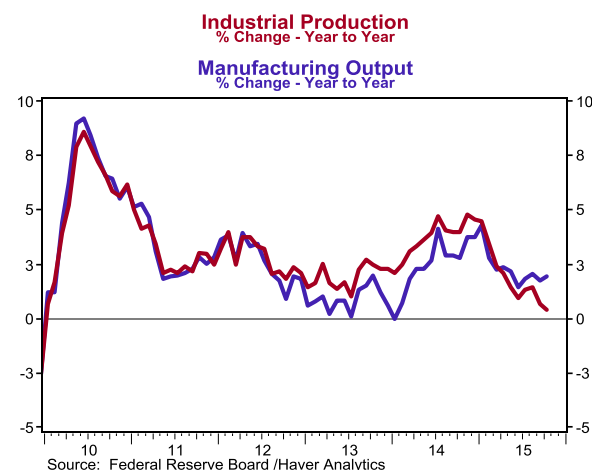


## October Industrial Production / Capacity Utilization

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- Industrial production declined 0.2% in October, coming in below the consensus expected gain of 0.1%. Including revisions to prior months, production rose 0.1% and is up 0.4% in the past year. Utility output declined 2.5% in October, while mining declined 1.5%.
- Manufacturing, which excludes mining/utilities, increased 0.4% in October and rose 0.7% including revisions to prior months. Auto production rose 0.7% while non-auto manufacturing increased 0.4%. Auto production is up 10.9% versus a year ago while non-auto manufacturing is up 1.3%.
- The production of high-tech equipment increased 0.7% in October and is up 0.1% versus a year ago.
- Overall capacity utilization fell to 77.5% in October from 77.7% in September. Manufacturing capacity utilization rose to 76.4% in October from 76.2% in September.

**Implications:** Please feel free to ignore the weak headline for overall industrial production in October; the details of the report show strength. Overall production declined 0.2% in October, but all of the loss was due to utilities and mining, neither of which will stay persistently weak in the year ahead. Utility output dropped by 2.5% as October temperatures in the lower 48 states were the warmest for any October since 1963. Meanwhile, given oil price declines in the past year, mining continues to be a headwind for the economy, dropping 1.5% in October, led by a 1.5% decline in oil and gas extraction. However, we don't think declines in drilling and extraction will last much longer. Productivity gains in energy production from new technologies continue to drive down costs. And as oil prices bottom out, drilling activity should start to climb again, even if oil prices stay low relative to recent years. Taking out mining and utilities gives us manufacturing which was up 0.4% in October and up 0.7% including upward revisions to prior months. Auto production grew 0.7%, but even excluding autos manufacturing ex-autos is accelerating, up at a 1.9% annual rate in the past three months versus a 1.3% gain in the past year. The fundamentals favor further acceleration in the year ahead. Companies are sitting on huge cash reserves and corporate cash flow is at a record high. In other manufacturing news yesterday, the Empire State index, a measure of manufacturing sentiment in New York, came in at -10.7 in November, versus -11.4 in October. On the housing front, the NAHB index, which measures confidence among home builders, declined to a still strong 62 in November versus 65 in October.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-15	Sep-15	Aug-15	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	-0.2%	-0.2%	0.1%	-1.1%	0.2%	0.4%
<b>Manufacturing</b>	0.4%	-0.1%	-0.1%	0.8%	2.1%	1.9%
<b>Motor Vehicles and Parts</b>	0.7%	0.5%	-5.2%	-15.1%	8.1%	10.9%
<b>Ex Motor Vehicles and Parts</b>	0.4%	-0.1%	0.2%	1.9%	1.7%	1.3%
<b>Mining</b>	-1.5%	-2.4%	0.3%	-13.0%	-9.0%	-6.9%
<b>Utilities</b>	-2.5%	1.2%	1.6%	0.8%	-1.6%	-1.5%
<b>Business Equipment</b>	0.2%	-0.5%	0.7%	1.5%	2.1%	0.5%
<b>Consumer Goods</b>	-0.1%	0.2%	0.2%	1.1%	3.1%	3.5%
<b>High-Tech Equipment</b>	0.7%	0.5%	-0.1%	4.2%	2.3%	0.1%
<b>Total Ex. High-Tech Equipment</b>	-0.2%	-0.2%	0.1%	-1.1%	0.2%	0.4%
<b>Cap Utilization (Total)</b>	<b>77.5</b>	<b>77.7</b>	<b>78.0</b>	<b>3-mo Average</b>	<b>6-mo Average</b>	<b>12-mo Average</b>
<b>Manufacturing</b>	<b>76.4</b>	<b>76.2</b>	<b>76.3</b>	77.7	77.7	78.1
				76.3	76.2	76.1

Source: Federal Reserve Board