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October Industrial Production / Capacity Utilization

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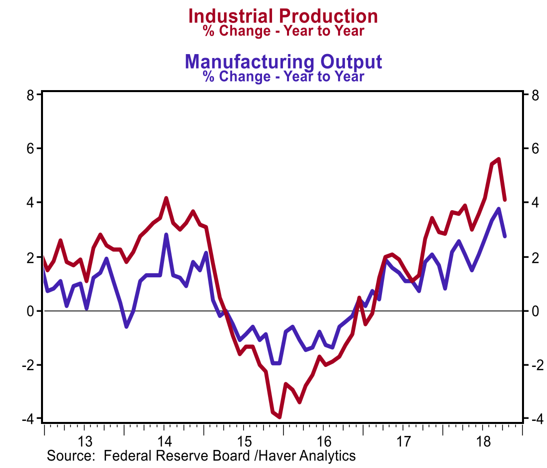
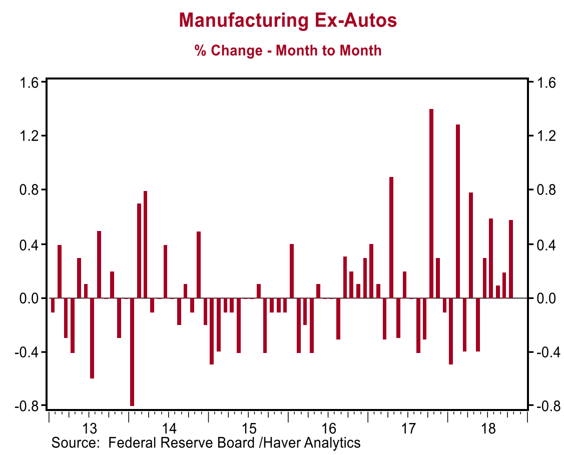
- Industrial production rose 0.1% in October, versus the consensus expected gain of 0.2%. Mining output fell 0.3% in October, while utilities declined 0.5%.
- Manufacturing, which excludes mining/utilities, rose 0.3% in October. Auto production fell 2.8%, while non-auto manufacturing increased 0.6%. Auto production is up 2.1% versus a year ago, while non-auto manufacturing is up 2.8%.
- The production of high-tech equipment was unchanged in October but is up 5.9% versus a year ago.
- Overall capacity utilization fell to 78.4% in October from 78.5% in September. Manufacturing capacity utilization increased to 76.2% in October from 76.1% in September.





Implications: Industrial production continued to climb higher in September, posting a fifth consecutive month of growth to hit a new record high. And a look at growth in the past year shows industrial production – which counts "units" of output and is therefore a proxy for "real" growth – is up a healthy 4.1%. It should also be noted that the Federal Reserve reported that output growth was held down in September and October due to the effects of recent hurricanes, although only slightly. Further, upward revisions to prior months resulted in the headline index advancing at a 4.7% annual rate in Q3 versus a prior reading of 3.3%, suggesting a small upward revision to the original real GDP estimate of 3.5% for the third quarter reported a few weeks ago. Looking closer at the details of today's report shows that manufacturing - which makes up the largest part of overall production - rose 0.3% in October, its fifth consecutive monthly gain. The typically volatile auto production series fell 2.8% in October. But excluding autos, manufacturing production rose a healthy 0.6%. Manufacturing activity seems to be accelerating across the board, with both the overall series and its auto and non-auto subcategories growing at a faster annualized pace in the past three months than in the past year. This demonstrates that the strength in overall manufacturing is broad-based and is likely to persist. One piece of positive news buried in the details of today's report was the recent acceleration in the production of business equipment, which rose 0.8% in October and is up at a 13.5% annual rate in the past three months, pointing to continuing demand for capital goods from US companies. This is echoed by September's durable goods report which showed shipments of non-defense capital goods excluding aircraft – which the government uses to calculate business investment in GDP – rising at 7.3% annual rate in Q3 versus the Q2 average. Look for an upward revision to the relatively weak GDP measure of business investment growth in Q3 at the end of this month when the second GDP report is released, followed by continued healthy gains due to the effects of corporate tax reform and the full expensing of capital equipment.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Oct-18	Sep-18	Aug-18	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.1%**	0.2%	0.8%	4.5%	2.6%	4.1%
Manufacturing	**0.3%**	0.3%	0.4%	3.9%	2.1%	2.7%
Motor Vehicles and Parts	**-2.8%**	1.3%	3.6%	8.6%	-4.9%	2.1%
Ex Motor Vehicles and Parts	**0.6%**	0.2%	0.1%	3.5%	2.7%	2.8%
Mining	**-0.3%**	-0.1%	2.4%	8.0%	11.7%	13.2%
Utilities	**-0.5%**	-0.2%	1.2%	1.9%	-6.9%	1.7%
Business Equipment	**0.8%**	0.8%	1.6%	13.5%	6.7%	4.1%
Consumer Goods	**0.2%**	0.5%	0.4%	4.2%	-1.5%	1.8%
High-Tech Equipment	**0.0%**	0.0%	0.4%	1.6%	6.0%	5.9%
Total Ex. High-Tech Equipment	**0.1%**	0.1%	0.8%	4.2%	2.4%	4.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.4**	78.5	78.5	78.5	78.1	77.8
Manufacturing	**76.2**	76.1	75.9	76.1	75.8	75.6

Source: Federal Reserve Board