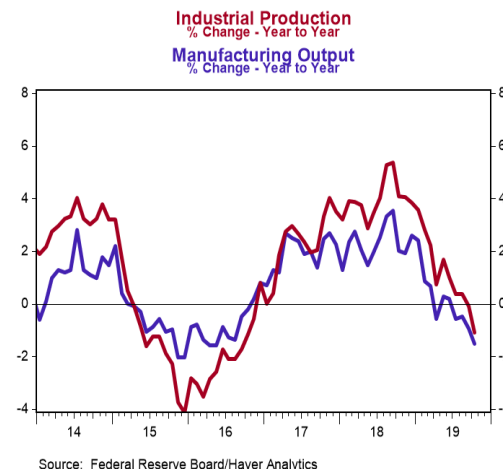


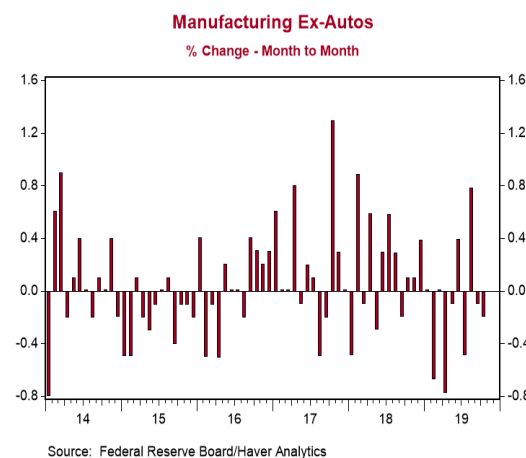
October Industrial Production / Capacity Utilization

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

- Industrial production dropped 0.8% in October, lagging the consensus expected decline of 0.4%. Mining output fell 0.7% in October, while utilities dropped 1.3%.
- Manufacturing, which excludes mining/utilities, declined 0.6% in October. Auto production fell 7.1%, while non-auto manufacturing declined 0.2%. Auto production is down 11.9% versus a year ago, while non-auto manufacturing is down 0.7%.
- The production of high-tech equipment rose 0.1% in October and is up 5.6% versus a year ago.
- Overall capacity utilization declined to 76.7% in October from 77.5% in September. Manufacturing capacity utilization fell to 74.7% in October from 75.2% in September.



Implications: Industrial production continued to take it on the chin in October, as the GM strike dragged on. That said, outside autos there wasn't much to like in today's report either, with nearly every major category of production showing declines. Autos led industrial production lower in October, declining 7.1%, and over the course of September and October the GM strike dragged auto production down by a total of 12.2%, the largest two-month decline since the recession in 2009. The good news is that the strike has since been resolved, so autos are poised for a sharp rebound in November. Manufacturing, excluding autos, had a more muted decline of 0.2% in October. Despite the GM strike, over the past five months, overall manufacturing has declined at a 0.9% annualized rate, a smaller decline than the large annualized drop of 4.5% during the first five months of 2019. We think this trend will continue and expect a return to positive growth in industrial production in the months ahead. The strike is over, USMCA is likely to be passed soon, and a Phase 1 trade deal with China looks to be around the corner. It's also important to remember that we had a similar slowdown in 2015-16 during the oil price crash, and no recession materialized. And keep in mind that manufacturing is only responsible for about 11% of GDP and is much more sensitive to global demand than other sectors of the economy. Outside the manufacturing sector, mining activity fell 0.7% in October, primarily due to a decline in coal extraction. Utilities were also weak in October, falling 2.6% as an increase in natural gas usage was swamped by lower demand for electricity. Given relatively harsh weather for much of the country so far in November, utility output is set to rebound. High-tech equipment production was the one bright spot in October, rising 0.1%, and is now up 5.6% in the past year, the fastest year-over-year growth of any major category. In other manufacturing news this morning, the Empire State Index, which measures factory sentiment in the New York region, fell to +2.9 in November from +4.0 in October, still signaling growth in that area of the country.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-19	Sep-19	Aug-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.8%	-0.3%	0.7%	-1.5%	-0.5%	-1.1%
Manufacturing	-0.6%	-0.5%	0.6%	-2.3%	-0.6%	-1.5%
Motor Vehicles and Parts	-7.1%	-5.5%	-1.1%	-43.3%	-15.2%	-11.9%
Ex Motor Vehicles and Parts	-0.2%	-0.1%	0.8%	2.0%	0.6%	-0.7%
Mining	-0.7%	-0.8%	2.6%	4.7%	-1.9%	2.7%
Utilities	-2.6%	1.9%	-0.7%	-5.6%	1.0%	-4.2%
Business Equipment	-0.6%	-1.2%	1.0%	-3.1%	-1.0%	-2.5%
Consumer Goods	-0.8%	-0.1%	-0.2%	-4.1%	-0.2%	-2.2%
High-Tech Equipment	0.1%	0.4%	1.7%	9.1%	9.9%	5.6%
Total Ex. High-Tech Equipment	-0.9%	-0.3%	0.7%	-1.8%	-0.9%	-1.3%
Cap Utilization (Total)	76.7	77.5	77.9	3-mo Average 77.4	6-mo Average 77.5	12-mo Average 78.2
Manufacturing	74.7	75.2	75.7	75.2	75.4	75.9

Source: Federal Reserve Board