

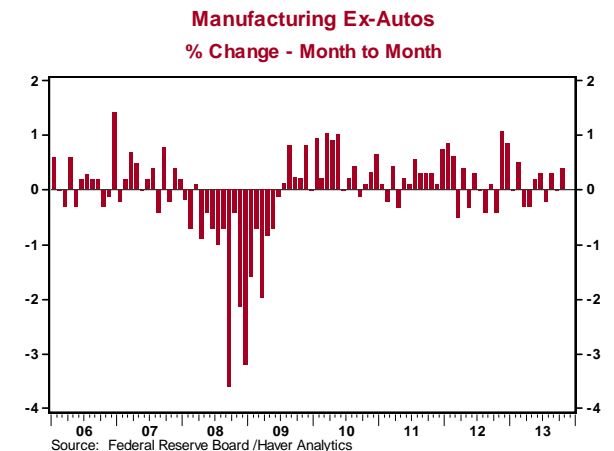
October Industrial Production / Capacity Utilization

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- Industrial production declined 0.1% in October (unchanged including revisions to prior months), coming in below the consensus expected 0.2% gain. Production is up 3.3% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.4% in October. Auto production declined 1.4% in October, while non-auto manufacturing was up 0.4%. Auto production is up 9.3% versus a year ago while non-auto manufacturing is up 2.9%.
- The production of high-tech equipment rose 1.2% in October, and is up 5.5% versus a year ago.
- Overall capacity utilization declined to 78.1% in October from 78.3% in September. Manufacturing capacity ticked up to 76.2% in October.

Implications: Please ignore the headline decline in industrial production in October, which was all due to the volatile mining and utility sectors. Taking out those sectors gives us manufacturing, which was up 0.4% in October, up 3.6% in the past year, and at the highest level since May 2008. Best of all, the gain in manufacturing was all outside the auto sector, which also tends to be volatile from month to month. Non-auto manufacturing was up 0.4% while auto production was down 1.4%. Notably, the recent acceleration of output is being led by business equipment rather than consumer goods, which signals a potential pick up in productivity growth in the year ahead. We expect continued gains in production as the housing recovery is still young and demand for autos and other durables remains strong. Over the past year, the auto sector has led the manufacturing gains, up 9.3%, but even manufacturing outside the auto sector has done fine, up 2.9%. We expect the gap between those two growth rates to narrow substantially in the year ahead, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Capacity utilization declined to 78.1% in October but remains not far from the average of 78.9% in the past 20 years. Gains in production in the year ahead should push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing companies have the ability to make these investments.

In other manufacturing news this morning, the Empire State index, a measure of factory sentiment in New York, declined to -2.2 in November from +1.5 in October. Although we'd rather see a positive number than a negative one, the index was even lower last fall and did not signal a slowdown. In other news, still no sign of inflation in the trade sector. Import prices fell 0.7% in October and are down 2% from a year ago. All of the drop in prices in October was due to oil; ex-petroleum import prices ticked up 0.1% for the month, although these prices are still down 1.3% from a year ago. Export prices declined 0.5% in October and are down 2.1% from a year ago. Export prices are down similar amounts even if we exclude farm products.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-13	Sep-13	Aug-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.7%	0.5%	4.1%	2.4%	3.3%
Manufacturing	0.4%	0.0%	0.7%	4.6%	2.5%	3.6%
Motor Vehicles and Parts	-1.4%	1.9%	5.2%	24.9%	4.2%	9.3%
Ex Motor Vehicles and Parts	0.4%	0.0%	0.3%	3.0%	2.1%	2.9%
Mining	-1.6%	1.0%	0.3%	-1.3%	6.6%	4.8%
Utilities	-1.1%	4.4%	-0.8%	10.2%	-3.3%	0.2%
Business Equipment	0.2%	1.1%	0.7%	8.1%	3.4%	5.2%
Consumer Goods	0.0%	0.7%	0.3%	4.4%	0.0%	2.5%
High-Tech Equipment	1.2%	-0.4%	0.5%	5.3%	8.2%	5.5%
Total Ex. High-Tech Equipment	-0.2%	0.7%	0.4%	3.8%	2.3%	3.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.1	78.3	77.9	78.1	78.0	78.0
Manufacturing	76.2	76.1	76.1	76.1	76.1	76.1

Source: Federal Reserve Board