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November Industrial Production / Capacity Utilization

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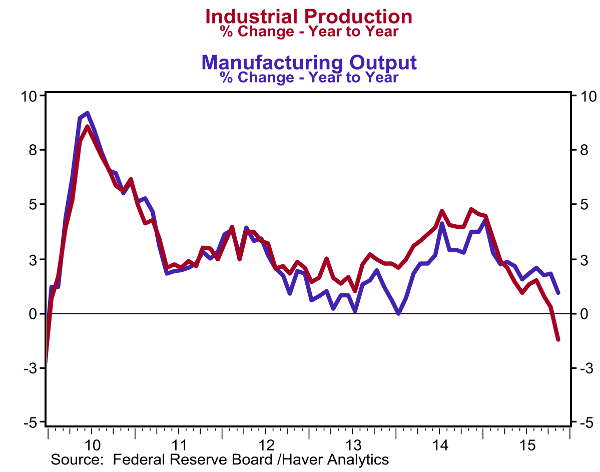
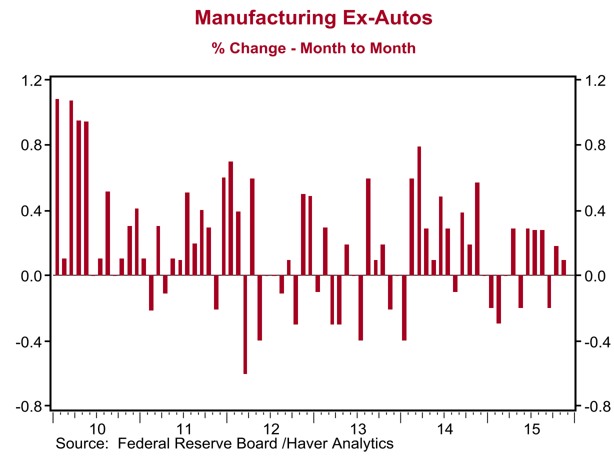
- Industrial production declined 0.6% in November, coming in well below the consensus expected decline of 0.2%. Including revisions to prior months, production declined 0.7% and is down 1.2% in the past year. Utility output declined 4.3% in November, while mining declined 1.1%.

- Manufacturing, which excludes mining/utilities, was unchanged in November. Auto production declined 0.9% while non-auto manufacturing increased 0.1%. Auto production is up 5.5% versus a year ago while non-auto manufacturing is up 0.6%.

- The production of high-tech equipment increased 0.2% in November and is up 0.7% versus a year ago.

- Overall capacity utilization fell to 77.0% in November from 77.5% in October. Manufacturing capacity utilization slipped to 76.2% in November from 76.3% in October.





Implications: Overall industrial production has been ugly over the past year, and today's 0.6% decline in November does not make it any better. But like most of the past year, the decline in November was due to utilities and mining, neither of which we believe will stay persistently weak in the years ahead. Utility output dropped 4.3% in November as temperatures in the lower 48 states were unseasonably warm due to the El Niño effect. Meanwhile, given oil price declines in the past year, mining continues to be a headwind for the economy, dropping 1.1% in November, with much of the decline attributable to sizable declines for coal mining and oil and gas well drilling and servicing. However, declines in drilling and extraction shouldn't last much longer. Based on other commodity prices, oil prices should average at higher levels over the next several years. Meanwhile, productivity gains in energy production from new technologies continue to drive down costs. Taking out mining and utilities gives us manufacturing which was unchanged in November and up 1.0% in the past year. Auto production was a drag in November, declining 0.9% but manufacturing was up 0.1% excluding autos. The fundamentals favor a recovery in overall industrial production in the year ahead. Mining and utilities should rebound, monetary policy remains relatively loose, and companies are sitting on huge cash reserves while corporate cash flow is at a record high. We don't expect production to boom any time soon, as a strengthening dollar along with weaker overseas demand will continue to be a headwind, but we do expect a gradual pick-up in activity in 2016.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Nov-15**	**Oct-15**	**Sep-15**	**3-mo % Ch** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Industrial Production	**-0.6%**	-0.4%	-0.1%	-4.4%	-0.4%	-1.2%
Manufacturing	**0.0%**	0.3%	-0.2%	0.4%	1.9%	1.0%
Motor Vehicles and Parts	**-0.9%**	1.2%	0.6%	3.8%	2.3%	5.5%
Ex Motor Vehicles and Parts	**0.1%**	0.2%	-0.2%	0.4%	1.9%	0.6%
Mining	**-1.1%**	-2.4%	-1.3%	-17.5%	-6.8%	-8.2%
Utilities	**-4.3%**	-2.8%	1.5%	-20.3%	-8.8%	-7.6%
Business Equipment	**0.1%**	-0.4%	-0.6%	-3.3%	-0.6%	-0.7%
Consumer Goods	**-0.5%**	-0.5%	-0.1%	-4.0%	2.3%	0.8%
High-Tech Equipment	**0.2%**	1.5%	0.7%	9.8%	4.4%	0.7%
Total Ex. High-Tech Equipment	**-0.6%**	-0.4%	-0.2%	-4.4%	-0.4%	-1.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.0**	77.5	77.9	77.5	77.7	78.0
Manufacturing	**76.2**	76.3	76.1	76.2	76.2	76.1

Source: Federal Reserve Board