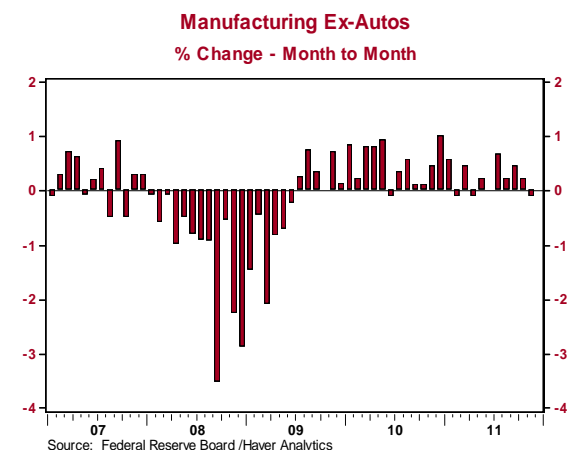
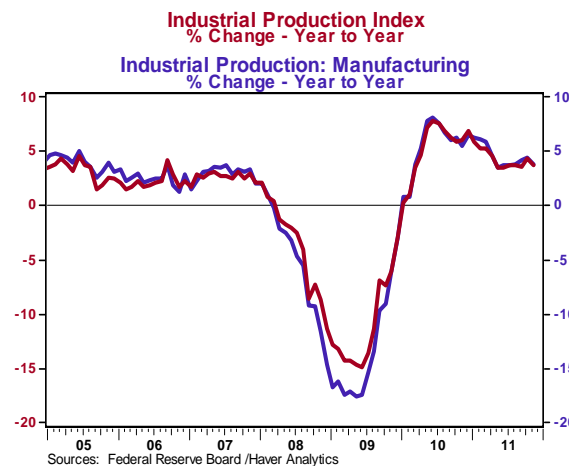


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November Industrial Production / Capacity Utilization

- Industrial production fell 0.2% in November, falling short of the consensus expected gain of 0.1%. Including revisions to prior months, production increased 0.1%. Output is up 3.7% in the past year.
- Manufacturing, which excludes mining/utilities, was down 0.4% in November. The decline was mostly due to auto production, which fell 3.5%. Non-auto manufacturing dipped 0.1%. Auto production is up 9.1% versus a year ago while non-auto manufacturing is up 3.5%.
- The production of high-tech equipment declined 0.8% in November and is only up 1.2% versus a year ago.
- Overall capacity utilization dropped to 77.8% in November from 78.0% in October. Manufacturing capacity use fell to 75.3% in November from 75.6% in October.

Implications: Today's data on industrial production were mediocre, but don't expect that to last. Production dipped 0.2% in November, but was up 0.1% including revisions to prior months, matching consensus expectations. The primary reason for the decline in November was the auto sector, which is volatile from month to month and where output fell 3.5%. In addition, high-tech production continued its recent swoon. This is due to major flooding in Thailand, one of the world's leading producers of hard disk drives and semiconductors. Still, even excluding autos and high-tech, manufacturing production was down 0.1% in November. However, we would not read much into that small decline. During periods of economic expansion, this figure goes down about four months every year and we expect a rebound in overall production in the months ahead. Auto inventories are very thin and problems in Thailand will recede. Timely news on the manufacturing sector already show a rebound in December. The Empire State index, a measure of activity in New York, increased to +9.5 from +0.6 in November. The Philly Fed index, a measure of activity in that region, increased to +10.3 from +3.6. Both indices easily beat consensus expectations. Corporate profits and cash on the balance sheets of non-financial companies are both at record highs. Meanwhile, capacity utilization is close to long-term norms. As a result, business investment in equipment, which is already at a record high, is likely to continue to trend upward in the year ahead, regardless of whether the federal government maintains full expensing for tax purposes in 2012.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Nov-11	Oct-11	Sep-11	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.2%	0.7%	0.0%	1.7%	3.9%	3.7%
Manufacturing	-0.4%	0.5%	0.4%	2.6%	3.6%	4.2%
Motor Vehicles and Parts	-3.5%	3.5%	0.4%	1.0%	10.6%	9.1%
Ex Motor Vehicles and Parts	-0.1%	0.2%	0.4%	2.2%	2.9%	3.5%
Mining	0.2%	2.1%	0.1%	9.9%	11.1%	6.7%
Utilities	0.2%	-0.3%	-3.0%	-11.8%	-1.4%	-0.7%
Business Equipment	-0.2%	1.4%	0.7%	7.9%	9.8%	10.0%
Consumer Goods	-0.4%	0.4%	-0.2%	-0.8%	1.5%	2.1%
High-Tech Equipment	-0.8%	-1.4%	-0.7%	-11.0%	-4.3%	1.2%
Total Ex. High-Tech Equipment	-0.2%	0.6%	0.1%	2.2%	4.2%	3.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.8	78.0	77.6	77.8	77.6	77.2
Manufacturing	75.3	75.6	75.3	75.4	75.1	74.7

Source: Federal Reserve Board