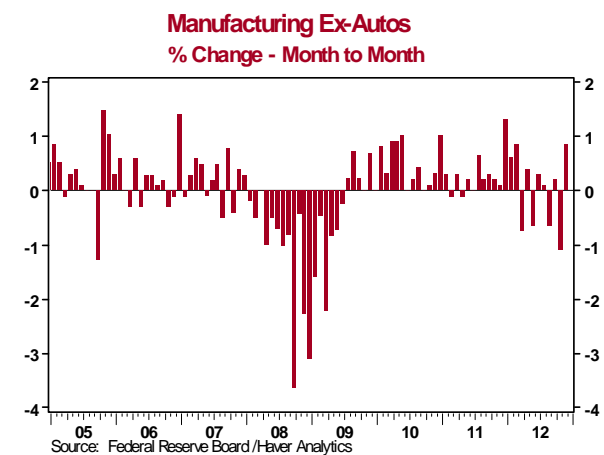
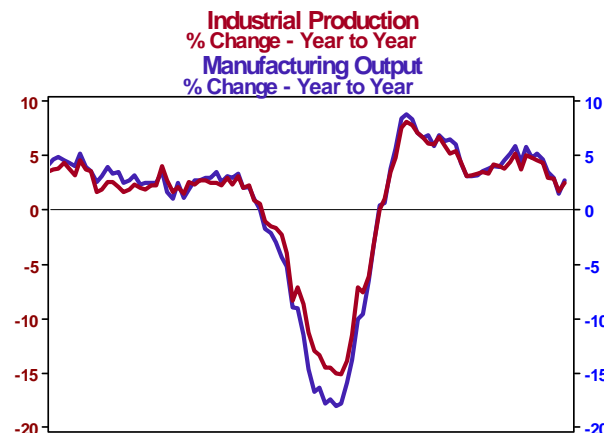


## November Industrial Production / Capacity Utilization

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- Industrial production rose 1.1% in November coming in well above the consensus expected gain of 0.3%. Production is up 2.5% in the past year.
- Manufacturing, which excludes mining/utilities, rose 1.2% in November. Auto production increased 4.6% in November while non-auto manufacturing rose 0.9%. Auto production is up 16.6% versus a year ago while non-auto manufacturing is up 1.6%.
- The production of high-tech equipment fell 0.2% in November and is down 1.6% versus a year ago.
- Overall capacity utilization moved up to 78.4% in November from 77.7% in October. Manufacturing capacity use rose to 76.6% in November from 75.9% in October.

**Implications:** Production surged 1.1% in November, rising the most in two years and fully rebounding from October’s Sandy-related drop. Putting October and November together, production is up at a 2.5% annual rate in the past two months, the same growth rate as in the past year. Manufacturing boomed in November, growing 1.2%. The gain was led by auto production which increased 4.6%, the largest monthly gain since January. Expect continued gains over the next few months as consumers replace vehicles ruined by the storm. Manufacturing outside the auto sector – what we like to follow to reduce “statistical noise” – rose 0.9%, but is up only 1.6% from last year. This is consistent with a plow horse economy. Capacity utilization rose to 78.4% in November, the highest level since March, and still remains higher than the 20-year average of 77.7%. This means companies have an incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments. However, if policymakers fail to resolve the “fiscal cliff” well into 2013, the risk of a mild recession would go up substantially. Our best guess is that some agreement will be made by very early in January, either a “bare-bones” agreement like the bill the Senate passed last July or a broader one. The Senate bill includes a one-year extension of income tax cuts for earnings below \$250,000 per year, a capital gains and dividend tax rate of 20% (23.8% including the extra tax in the Obamacare bill on high-income tax payers), and a “patch” for the Alternative Minimum Tax for 2012. However, with so many issues – like the sequester, estate tax, and debt limit – left unaddressed, the two sides would have to start bargaining again in January.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Nov-12	Oct-12	Sep-12	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	1.1%	-0.7%	0.2%	2.1%	0.4%	2.5%
<b>Manufacturing</b>	1.2%	-1.0%	0.0%	1.3%	0.2%	3.0%
<b>Motor Vehicles and Parts</b>	4.6%	0.0%	-1.7%	11.8%	5.3%	16.6%
<b>Ex Motor Vehicles and Parts</b>	0.9%	-1.1%	0.2%	0.0%	-0.4%	1.6%
<b>Mining</b>	0.9%	0.3%	1.6%	11.5%	6.8%	3.0%
<b>Utilities</b>	1.1%	0.0%	-0.8%	1.2%	-3.5%	0.7%
<b>Business Equipment</b>	1.3%	-1.3%	-0.3%	-1.1%	1.6%	7.5%
<b>Consumer Goods</b>	1.3%	-1.3%	0.4%	1.7%	-0.6%	1.2%
<b>High-Tech Equipment</b>	-0.2%	1.3%	-0.2%	4.0%	-5.7%	-1.6%
<b>Total Ex. High-Tech Equipment</b>	1.1%	-0.7%	0.2%	2.5%	0.8%	2.7%
<b>Cap Utilization (Total)</b>	78.4	77.7	78.3	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	76.6	75.9	76.7	78.1	78.5	78.6
				76.4	76.8	77.1

Source: Federal Reserve Board