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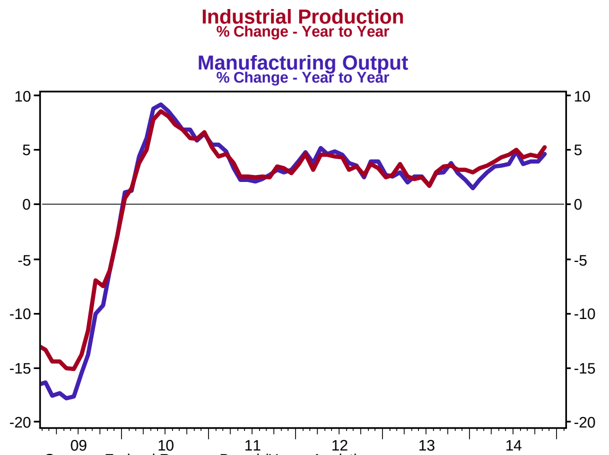
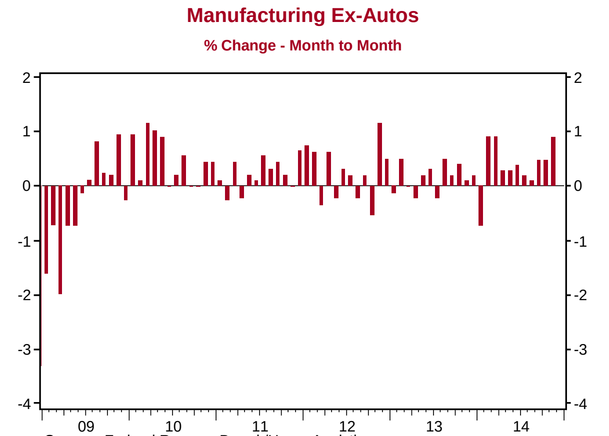
November Industrial Production / Capacity Utilization

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

- Industrial production rose 1.3% in November, +1.7% including revisions to prior months, coming in well above the consensus expected gain of 0.7%. Production is up 5.2% in the past year.
- Manufacturing, which excludes mining/utilities, rose 1.2% in November (+1.7% including revisions to prior months). Auto production rose 5.1% in November and non-auto manufacturing rose 0.9%. Auto production is up 7.7% versus a year ago while non-auto manufacturing is up 4.6%.
- The production of high-tech equipment increased 1.1% in November and is up 7.1% versus a year ago.
- Overall capacity utilization rose to 80.1% in November from 79.3% in October. Manufacturing capacity utilization increased to 78.4% in November from 77.6% in October.



Source: Federal Reserve Board /Haver Analytics



Source: Federal Reserve Board /Haver Analytics

Implications: Looks like the Plow Horse is carrying some Christmas gifts! After last week's report that retail sales were strong, today we got news that industrial production skyrocketed up 1.3% in November, the largest monthly gain since 2010. Auto production and utilities led the way, both up 5.1%. These are two of the most volatile parts of the report. The third is mining, which was down 0.1% (due to a 0.5% drop in oil and gas well drilling). But even stripping out these three volatile sectors and only looking at manufacturing outside of autos, production was up a very robust 0.9% in November and is up 4.6% versus a year ago. In the past 16 months, this key measure has only declined once, and that was last January during the worst of an unusually brutal winter. We expect continued growth in the industrial sector in the year ahead. The housing recovery has further to go and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. No wonder the production of consumer goods, led by cars, electronics, and energy boomed 2.5% in November, the largest gain since August 1998. As a result of the increases in production, capacity utilization hit 80.1% in November, the highest so far in the recovery and higher than the average of 78.9% in the past twenty years. Further gains in production in the year ahead will push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, declined to -3.6 in December versus 10.2 in November. We're guessing this is a lagged effect of the deep snowfall in some parts of upstate New York and is an outlier relative to the other generally robust manufacturing data. Expect the report to show a solid rebound next month.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Nov-14**	**Oct-14**	**Sep-14**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**1.3%**	0.1%	0.9%	9.5%	5.9%	5.2%
Manufacturing	**1.2%**	0.4%	0.4%	8.1%	6.0%	5.0%
Motor Vehicles and Parts	**5.1%**	-0.4%	-2.0%	10.5%	8.5%	7.7%
Ex Motor Vehicles and Parts	**0.9%**	0.5%	0.5%	7.9%	5.3%	4.6%
Mining	**-0.1%**	-1.0%	1.4%	1.2%	5.7%	9.3%
Utilities	**5.1%**	-0.8%	4.3%	39.9%	8.7%	1.8%
Business Equipment	**1.2%**	0.9%	-0.3%	7.6%	5.1%	6.5%
Consumer Goods	**2.5%**	0.0%	0.8%	13.9%	5.4%	4.1%
High-Tech Equipment	**1.1%**	0.7%	0.2%	8.3%	3.6%	7.1%
Total Ex. High-Tech Equipment	**1.3%**	0.1%	0.9%	9.4%	6.0%	5.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**80.1**	79.3	79.5	79.6	79.4	79.1
Manufacturing	**78.4**	77.6	77.4	77.8	77.6	77.1

Source: Federal Reserve Board