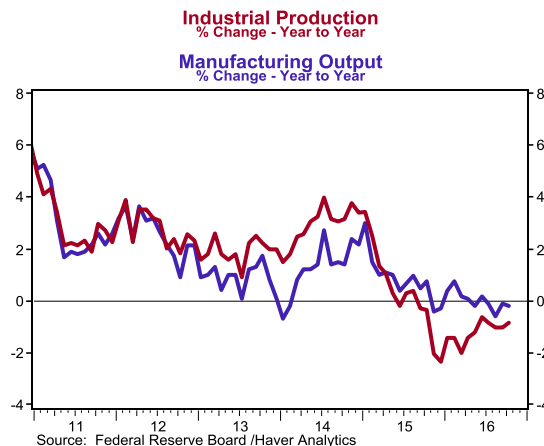


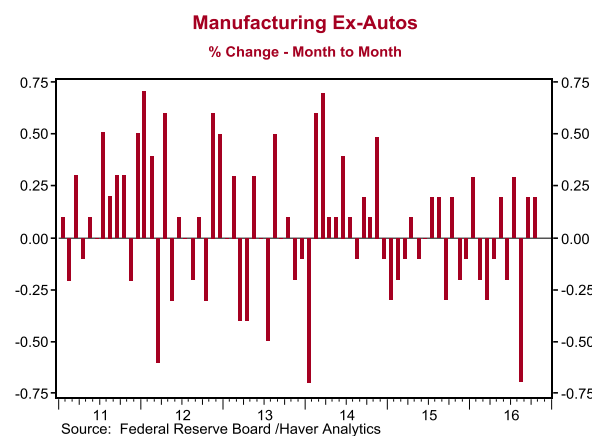
## October Industrial Production / Capacity Utilization

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- Industrial production was unchanged in October, coming in below the consensus expected increase of 0.2% (Including revisions to prior months, production increased 0.1%). Utility output fell 2.6%, while mining increased 2.1%.
- Manufacturing, which excludes mining/utilities, increased 0.2% in October. Auto production rose 0.8% while non-auto manufacturing increased 0.2%. Auto production is up 5.0% versus a year ago while non-auto manufacturing is down 0.6%.
- The production of high-tech equipment increased 1.0% in October and is up 6.7% versus a year ago.
- Overall capacity utilization fell to 75.3% in October from 75.4% in September. Manufacturing capacity utilization rose to 74.9% in October from 74.8% in September.



**Implications:** Don't worry about the flat reading for industrial production in October. Although it was a downside surprise to most analysts, who expected a consensus increase of 0.2%, First Trust was projecting flat industrial production for exactly the reason it happened. Compared to September, weather patterns were unusually mild this October, particularly in northern states, which stayed warmer later into the fall. As a result, we assumed utility output would be down and, in fact, utilities were down 2.6% in October. Outside of utilities, however, production growth was healthy. Manufacturing posted a 0.2% gain. Although the increase was led by the volatile auto sector, manufacturing was up even outside the auto sector. The best news in today's report was that mining production soared 2.1%, its largest gain since March 2014, and is now up at a 6.7% annual rate in the past three months, despite still being down 7% in the past year. This month's gain was driven primarily by coal mining, but nearly every sub-category posted gains as well. Further, oil and gas-well drilling posted its fifth consecutive gain in October, jumping 9.3%, and is now up a massive 98% in the past three months at an annualized rate. While mining (and energy in general) has been a drag on production over the past year, we expect activity in that sector to grow in the year ahead as energy prices are well off the lows. Based on other commodity prices, oil prices should average at higher levels over the next several years. Although weak overseas economies will continue to be a headwind for production, we do expect solid growth in the year ahead. In the meantime, today's report once again ticks up our estimate of real GDP growth in Q3. We're now tracking 3.3% versus the official report of 2.9% a couple of weeks ago. In other news today, the NAHB index, which measures sentiment among home builders, remained unchanged at a robust 63 in November. More jobs and faster wage growth are making it easier to buy a home and builders will respond in the months and quarters to come.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-16	Sep-16	Aug-16	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.0%</b>	-0.2%	-0.1%	-1.1%	1.0%	-0.9%
<b>Manufacturing</b>	<b>0.2%</b>	0.2%	-0.6%	-0.8%	0.4%	-0.2%
<b>Motor Vehicles and Parts</b>	<b>0.8%</b>	0.3%	0.8%	8.3%	7.5%	5.0%
<b>Ex Motor Vehicles and Parts</b>	<b>0.2%</b>	0.2%	-0.7%	-1.2%	0.0%	-0.6%
<b>Mining</b>	<b>2.1%</b>	-0.4%	0.0%	6.7%	6.3%	-7.0%
<b>Utilities</b>	<b>-2.6%</b>	-3.0%	2.9%	-10.6%	-0.2%	-0.1%
<b>Business Equipment</b>	<b>0.2%</b>	-0.2%	-0.3%	-1.2%	0.8%	-0.2%
<b>Consumer Goods</b>	<b>-0.2%</b>	-0.1%	0.0%	-1.1%	0.2%	0.5%
<b>High-Tech Equipment</b>	<b>1.0%</b>	1.0%	0.5%	10.4%	13.7%	6.7%
<b>Total Ex. High-Tech Equipment</b>	<b>0.0%</b>	-0.2%	-0.2%	-1.5%	0.6%	-1.1%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>75.3</b>	75.4	75.6	75.4	75.4	75.4
<b>Manufacturing</b>	<b>74.9</b>	74.8	74.7	74.8	74.9	75.1

Source: Federal Reserve Board