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October Industrial Production / Capacity Utilization

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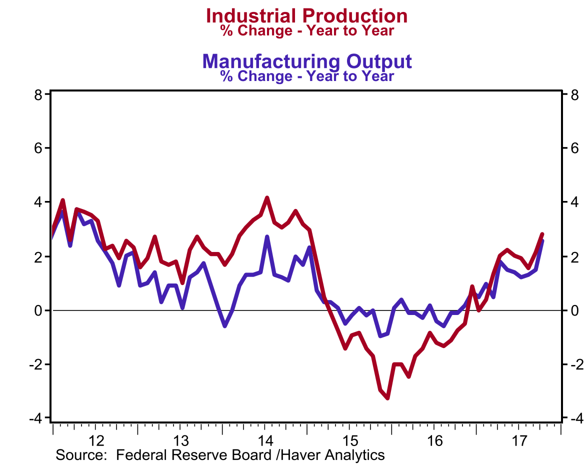
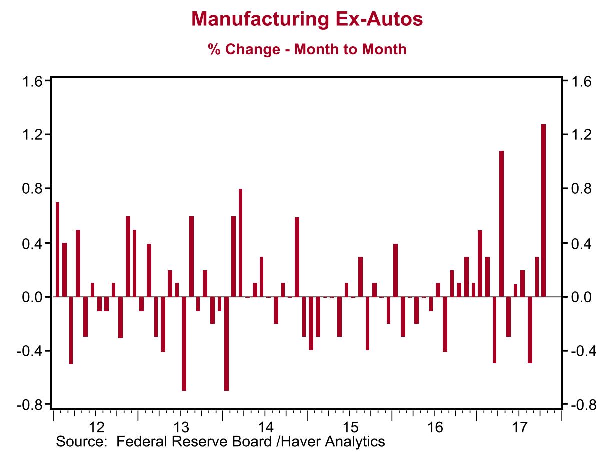
- Industrial production increased 0.9% in October (1.4% including revisions to prior months), easily beating the consensus expected 0.5%. Utility output rose 2.0%, while mining fell 1.3%.
- Manufacturing, which excludes mining/utilities, increased 1.3% in October (1.7% including revisions to prior months). Auto production rose 1% while non-auto manufacturing rose 1.3%. Auto production is down 1.6% versus a year ago while non-auto manufacturing is up 2.9%.
- The production of high-tech equipment rose 1.2% in October and is up 4.2% versus a year ago.
- Overall capacity utilization increased to 77.0% in October from 76.4% in September. Manufacturing capacity utilization rose to 76.4% in October from 75.5% in September.





Implications: Industrial production continued its post-hurricane rally in October, easily beating consensus expectations as the manufacturing sector led the way. But even without the storms, production would have been a solid 0.3%, according to the Federal Reserve. Industrial production rose 0.9% in October and is now up 2.8% versus a year ago. The biggest positive contribution to today's headline number came from manufacturing which rose 1.3%, matching the largest monthly gain since 2010. Auto manufacturing rose 1% in October and is now up at a 27.5% annual rate in the past three months, getting back to pre-hurricane levels of output. Meanwhile, non-auto manufacturing posted its largest monthly gain since 2006, rising 1.3%. This strength was also reflected in manufacturing capacity utilization, which rose to its highest level since 2008. Looking forward, expect further gains in overall production as the economy recovers from the effects of the two hurricanes. The one disappointment in today's report came from mining which fell 1.3%, primarily due to both oil and gas well drilling and extraction. Oil and gas-well drilling has struggled since the storms, but its monthly declines have begun to level off and it is still up a massive 61% from a year ago. Look for a surge in drilling activity in the months ahead once the effects of the storms pass. In other news this morning, the Philly Fed Index, a measure of sentiment among East Coast manufacturers, fell to a still high 22.7 in November from 27.9 in October. On the employment front, new claims for jobless benefits rose 10,000 last week to 249,000. Meanwhile, continuing claims fell 44,000 to 1.86 million. Look for another solid month of job growth in November. Finally, on inflation, import prices rose 0.2% in October while export prices remained unchanged. In the past year however, import prices are up 2.5% while export prices are up 2.7%, both in stark contrast to the price declines in the twelve months ending in October 2016. Yet another reason why the Federal Reserve should and will raise rates in December.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Oct-17	Sep-17	Aug-17	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.9%**	0.4%	-0.5%	3.5%	2.1%	2.8%
Manufacturing	**1.3%**	0.4%	-0.2%	5.9%	1.7%	2.5%
Motor Vehicles and Parts	**1.0%**	1.7%	3.5%	27.5%	-3.9%	-1.6%
Ex Motor Vehicles and Parts	**1.3%**	0.3%	-0.5%	4.4%	2.2%	2.9%
Mining	**-1.3%**	1.5%	-1.2%	-3.9%	3.2%	6.5%
Utilities	**2.0%**	-1.1%	-1.3%	-1.5%	4.0%	0.9%
Business Equipment	**0.5%**	1.6%	0.0%	8.6%	0.0%	4.1%
Consumer Goods	**0.9%**	0.5%	0.0%	5.4%	3.1%	1.8%
High-Tech Equipment	**1.2%**	1.1%	0.9%	13.3%	7.5%	4.2%
Total Ex. High-Tech Equipment	**0.9%**	0.4%	-0.5%	3.1%	1.9%	2.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.0**	76.4	76.1	76.5	76.5	76.2
Manufacturing	**76.4**	75.5	75.2	75.7	75.6	75.5

Source: Federal Reserve Board