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November Industrial Production / Capacity Utilization

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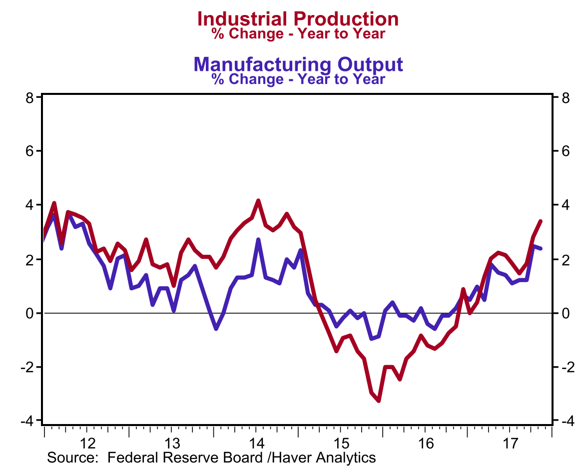
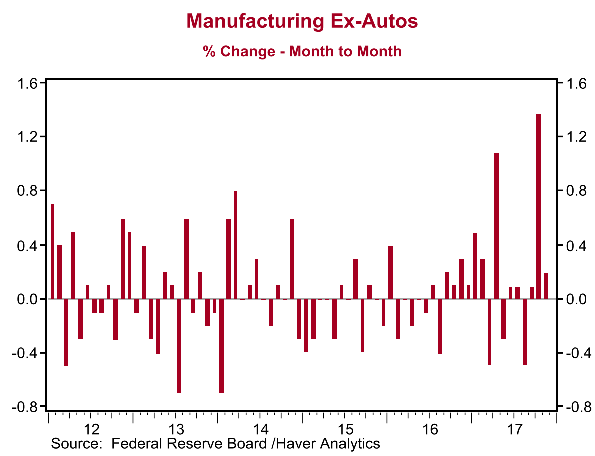
- Industrial production increased 0.2% in November (0.3% including revisions to prior months), versus a consensus expected 0.3%. Utility output fell 1.9%, while mining rose 2.0%.
- Manufacturing, which excludes mining/utilities, increased 0.2% in November. Auto production rose 0.1% while non-auto manufacturing rose 0.2%. Auto production is up 0.1% versus a year ago while non-auto manufacturing is up 2.6%.
- The production of high-tech equipment rose 0.3% in November and is up 1.6% versus a year ago.
- Overall capacity utilization increased to 77.1% in November from 77.0% in October. Manufacturing capacity utilization rose to 76.4% in November from 76.3% in October.





Implications: Industrial production returned to more moderate growth in November after an October surge that was the fastest monthly gain since 2010. The headline series rose 0.2% in November and is now up 3.4% in the past year, the fastest growth for any twelve-month period since 2013-14. Without a 2% gain in mining – a rebound after Hurricane Nate held down oil and gas extraction in October – overall industrial production would have been flat for the month, according to the Federal Reserve. But it would still be up more than 3% from a year ago, so the trend remains solid. Manufacturing, which rose 0.2% in November has undergone a major shift. Back in November 2016, automobile manufacturing was up 4.2% from the prior year while non-auto manufacturing was down 0.1%. Now those numbers have reversed, with auto manufacturing up only 0.1% in the past year while non-auto manufacturing is up 2.6%. This demonstrates that the revival of manufacturing outside the auto sector in the US hasn't been all talk. The strength was also reflected in capacity utilization in the manufacturing sector, which remains at the highest level since 2008. The biggest dark spot in today's report came from utilities, which fell 1.9% in November. But that part of production is very dependent on weather and should bounce back in the months ahead. Notably, although oil and gas extraction rebounded in November, oil and gas-well drilling continued to struggle, falling 3.4% in November. However, its monthly declines have started leveling off after plummeting following the storms and it is still up a massive 50% from a year ago. Look for a surge in drilling activity in the months ahead as the last effects of the storms pass. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, fell to a still high 18 in December from 19.4 in November. Plugging today's data into our models suggest real GDP growth in Q3 of 3.3%, no different than reported a month ago, and that the economy is growing at a 3.0% rate in Q4.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Nov-17	Oct-17	Sep-17	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.2%**	1.2%	0.3%	7.1%	2.5%	3.4%
Manufacturing	**0.2%**	1.4%	0.2%	7.2%	2.7%	2.3%
Motor Vehicles and Parts	**0.1%**	1.3%	1.7%	12.7%	1.4%	0.1%
Ex Motor Vehicles and Parts	**0.2%**	1.4%	0.1%	6.9%	2.8%	2.6%
Mining	**2.0%**	-0.6%	1.7%	12.7%	7.2%	9.4%
Utilities	**-1.9%**	2.1%	-1.3%	-4.6%	-5.3%	2.3%
Business Equipment	**0.5%**	1.3%	1.5%	13.8%	3.8%	5.2%
Consumer Goods	**-0.5%**	1.2%	0.0%	3.1%	1.0%	2.2%
High-Tech Equipment	**0.3%**	1.1%	1.0%	9.9%	3.1%	1.6%
Total Ex. High-Tech Equipment	**0.2%**	1.2%	0.3%	6.7%	2.5%	3.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.1**	77.0	76.2	76.8	76.6	76.3
Manufacturing	**76.4**	76.3	75.2	76.0	75.7	75.6

Source: Federal Reserve Board