

Industrial Production, Meet Reality

U.S. industrial production rose a less-than-expected 0.1% in October following a downwardly-revised 0.6% gain in September. Although the mild increase extended a four-month winning streak, it also masked underlying weakness in the report. Only a spurt in utilities output (as the coldest October in three decades stoked furnace usage) prevented an outright decline in industrial production. Manufacturing slipped 0.1%, the first decline in four months, led by some reversal in the recently ramped up auto industry, as well as back-to-back declines in construction supplies and business equipment. The latter likely indicates continued softness in business capital spending following a modest advance in Q3 (the first increase in seven quarters). Manufacturing excluding autos receded a bit after three solid gains. Mining output also pulled back modestly for the first time in four months.

Despite the minimal upturn in production, the capacity utilization rate climbed two-tenths of a percentage point to 70.7%, as plant capacity continued to shrink (now down 1% in the past year) in the face of obsolescence. The current rate, though above June's record-low of 68.3%, is still a full 10 percentage points below the long-run average, meaning inflation pressures are virtually extinct (as witnessed in today's producer price report).

	(month/month % change)			(% change: a.r.)	
	Oct	Sep	Aug	3-month	12-month
Total	0.1	0.6	1.3	8.3	-7.1
Manufacturing	-0.1	0.8	1.4	8.4	-8.0
High-Tech ***	0.6	0.1	-0.3	1.9	-10.4
Mfg. ex. High-Tech	-0.2	0.8	1.5	8.7	-7.8
Durables	-0.4	1.1	1.4	8.9	-11.7
Motor Vehicles & Parts	-1.7	8.1	6.3	63.0	-11.6
Computers & Office Equip.	-1.2	-1.4	-1.4	-15.0	-23.0
Non-Durables	0.2	0.7	1.4	9.5	-3.4
Business Equipment	-0.2	-0.4	1.1	2.0	-6.8
Mining	-0.2	0.6	1.1	6.1	-6.8
Utilities	1.6	-0.2	0.8	9.3	-2.0
Capacity Utilization (%)	70.7	70.5	70.0	69.0 *	75.4 **
Manufacturing	67.9	67.9	67.2	66.2 *	72.7 **

* 3 months ago ** 12 months ago

The Bottom Line: The dip in manufacturing production in October doesn't alter the recovery story, though it is a splash of cold water in the face of anyone expecting a V-shaped outlook.

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