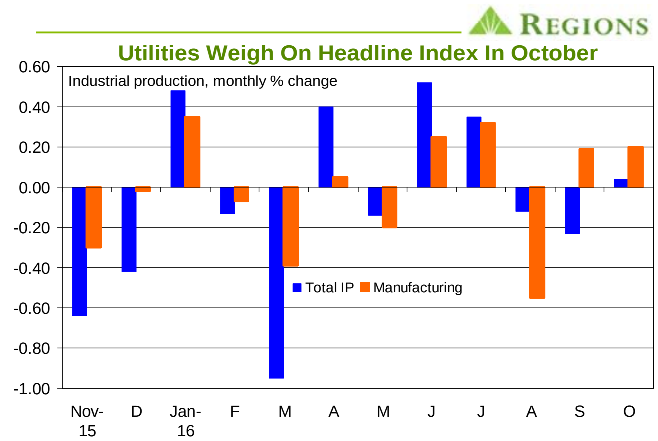
ECONOMIC UPDATE
REGIONS
November 16, 2016

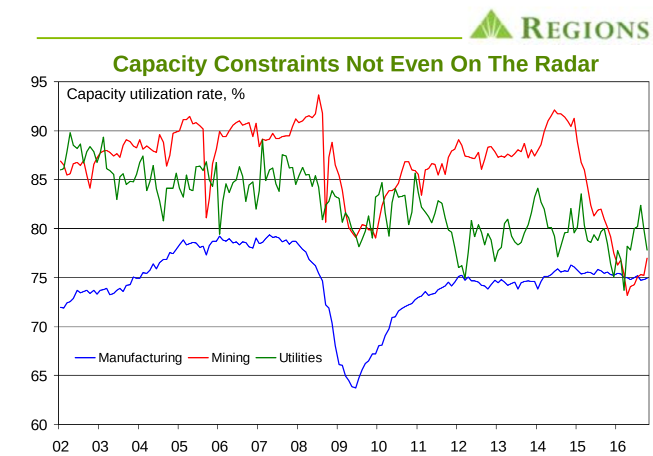
October Industrial Production: Utilities Weigh On Headline Index

- Industrial production was unchanged in October, with manufacturing output up by 0.2 percent.
- The overall capacity utilization rate fell to 75.3 percent, while the utilization rate in manufacturing rose to 74.9 percent.
- On a year-over-year basis, total industrial production was down by 0.9 percent in October, with manufacturing output down by 0.2 percent.

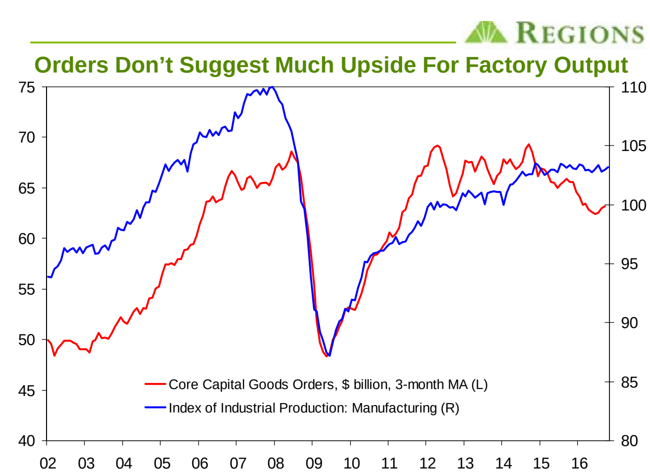
Output amongst the nation's factories, mines, and utilities was unchanged in October as higher output in mining and manufacturing was offset by a steep decline in utilities output. Revisions to prior estimates of industrial production over the July-September period were largely a wash. Our forecast of a 0.2 percent increase in October, which matched the consensus estimate, was predicated on higher output in manufacturing and mining with utilities output flat, so the miss on utilities accounts for our miss on the total index. The overall capacity utilization rate fell to 75.3 percent in October from 75.4 percent in September, but this is due to lower utilization in the utilities sector as both manufacturing and mining saw utilization rates increase. Total industrial output was down 0.9 percent in October, with manufacturing output down 0.2 percent, mining output down 7.0 percent, and utilities output down 0.1 percent. October marks the 14th consecutive month in which total industrial output was down year-on-year, and while much of this can be attributed to the precipitous decline in mining output, thanks to lower energy prices, it is worth noting that as of October manufacturing output has been down year-on-year in each of the last four months.



Though still down year-on-year, mining output rose by 2.1 percent in October; over the past several months mining output appeared to have been stabilizing in concert with oil prices. But, with oil prices having backed off recent highs and any agreement by OPEC to limit production still on "we'll believe it when we see it and when it is actually enforced" status, there would seem to be little impetus for a sustained increase in mining output over coming months. At the very least, however, mining is not likely to act as a significant downward weight on total industrial production going forward as it did during 2015 and the first half of 2016. Note from the middle chart how utilization rates in mining have plummeted, the flip side of which is that should market prices actually firm up U.S. producers would be able to ramp up production fairly quickly, though doing so could easily blunt any upward momentum in prices.



The details on manufacturing output are modestly positive, even stripping out production of motor vehicles and parts, which rose 0.9 percent in October. Output in the durable goods producing industries aside from motor vehicles and parts was higher, but many of the nondurable goods producing industries saw lower output in October. Non-auto manufacturing output stands roughly eight percent below its pre-recession peak, and it figures to be some time before that ground is fully recaptured. As for motor vehicles, assemblies were up to an annual rate of 12.1 million units in October, and it is worth noting that capacity utilization amongst producers of autos and SUVs/light trucks stands at 89.6 percent, the second-highest post-recession rate and well above the utilization rate for manufacturing as a whole. Production of business equipment rose modestly in October but over the past several months has failed to establish any clear trend, which is a reflection of what remains soft and uneven business capital spending. As indicated in our bottom chart, while core capital goods orders seem to have formed a bottom over the past few months, there is little to suggest a meaningful and sustained acceleration any time soon. To be sure, changes in fiscal and regulatory policy in 2017 could change the outlook, potentially to a significant degree, but the flip side of course is that changes in trade policy pose downside risks. Either way, though, any such policy and regulatory changes aren't likely to be felt in the economy until late-2017 at best. So, with the domestic landscape uncertain and the global growth environment still somewhat soft and uneven, especially as the specter of a stronger U.S. dollar looms over the horizon, next year may not look too different for the U.S. manufacturing sector than this year has looked.



With the manufacturing sector continuing to meander along an uncertain path, total industrial production is likely to remain fairly listless in 2017.

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