December 15, 2017

Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283
Sarah House, Economist
sarah.house@wellsfargo.com • (704) 410-3282

Industrial Production Notches Another Gain in November

The 0.2 percent increase in industrial production in November may have missed the 0.3 percent increase that had been expected, but it follows upward revisions to the prior month.

Not a Miss

Industrial production increased 0.2 percent in November which was a notch short of the 0.3 percent that had been expected. That said, it was hardly a disappointing report due to the fact that the prior month's initially reported gain of 0.9 percent was revised higher to 1.2 percent. In fact, on a three-month annualized basis, industrial production is now growing at the fastest clip in more than three years.

Manufacturing, which comprises more than three quarters of all output, was also up 0.2 percent, adding to its 1.4 percent surge in October. The gains in manufacturing were all concentrated on the durable-goods side, offsetting some modest weakness in non-durable industries. Within durables, gains were broad-based with the largest increase in primary metals production. Even motor vehicles, where sales have been soft lately, notched a small 0.1 percent increase in November.

Warmer Weather Means Less Need for Utilities

Utilities production, which accounts for only about 11 percent of overall industrial production, fell 1.9 percent. According to the National Oceanic and Atmospheric Administration (NOAA), the average U.S. temperature was 3.4°F above average, making it the seventh warmest November on record.

Mining Output Resurgence

Mining output, which accounts for about a 13 percent share of overall industrial production, rose 2.0 percent in November. Performance in this category came under pressure throughout most of last year (down 10 out of 12 months) amid the broad deterioration in oil and other commodity prices. This year has been a different story with November marking the eighth monthly increase in the first 11 months of 2017.

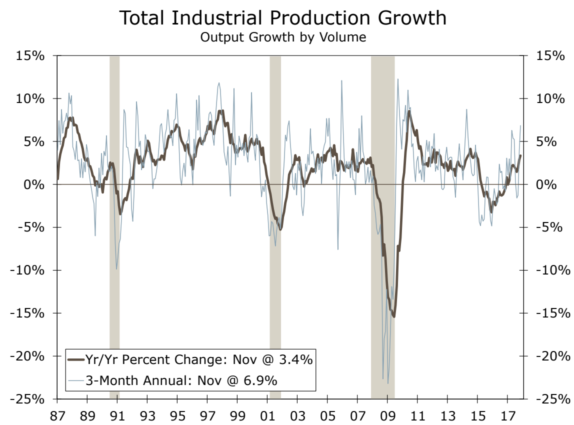
Less Spare Capacity

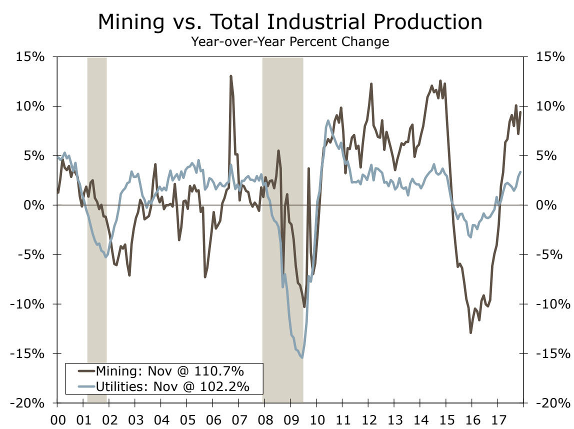
While capacity utilization is still muted for this mature stage of the economic cycle, there was some improvement this month. As you might expect, the warm weather meant extra slack in the utilities space; however other categories moved higher, if only modestly.

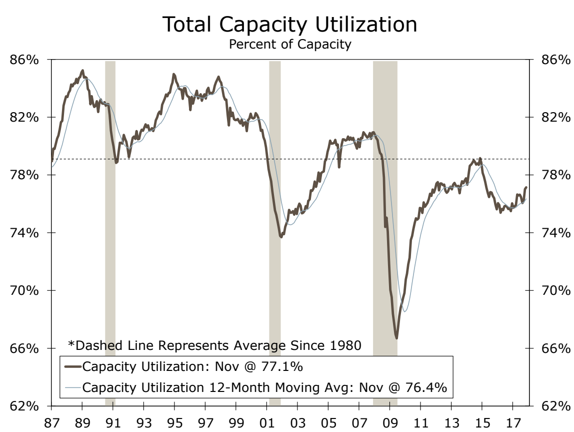
Manufacturing utilization hit 76.4 percent, and although that is below the long-run average, it actually marks the greatest use of manufacturing capacity since May 2008.

Mining capacity climbed to 84.5 percent. It was a surge in mining utilization earlier in this cycle that briefly lifted overall capacity utilization to its long-run average (bottom chart).

While industry is less influential in the broader economy than it was a generation ago, the slack here may help to explain why the Fed's inflation target has been so elusive in this cycle.







Source: Federal Reserve Board and Wells Fargo Securities

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com