



Economics Group

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Industrial Production Signals Modest Pickup in Activity in Q3

Industrial production ticked up 0.1 percent in October on gains in manufacturing and mining. Total production rose at a 1.8 percent annualized rate in Q3, the best pace in a year.

Tentative Signs of Improvement in the Industrial Sector

Industrial production eked out a 0.1 percent gain in September. The increase was slightly less than consensus expectations for a 0.2 percent gain and follows a downward revision to August production. Yet with a solid gain in July, production rose at a 1.8 percent annualized rate in the third quarter, the strongest quarterly gain in a year as manufacturing and mining activity has stabilized somewhat.

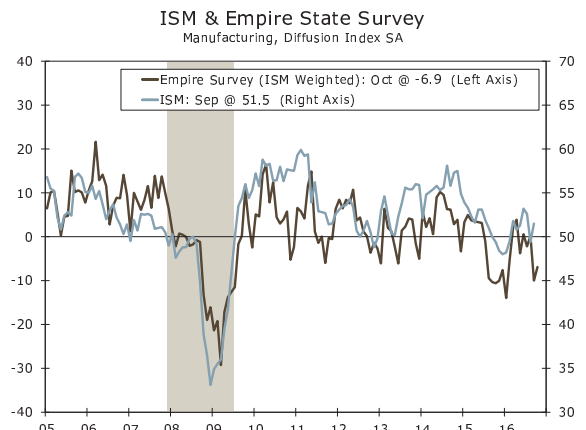
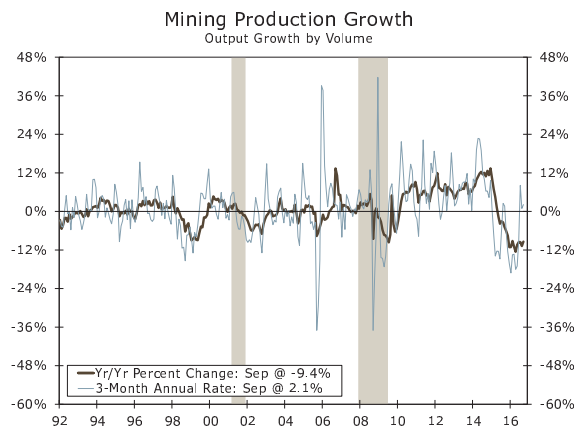
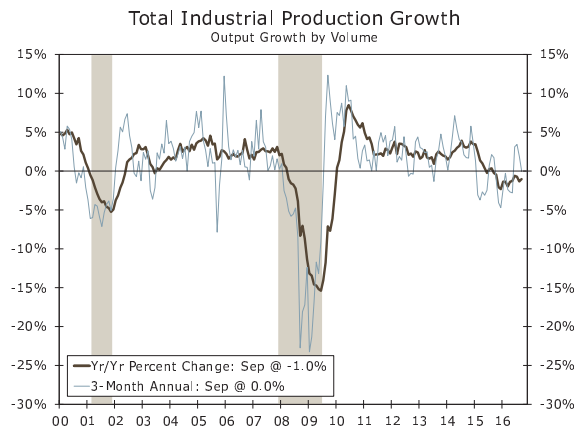
Despite another unseasonably warm month, utilities production fell 1.0 percent in September. Therefore September's uptick in production can be traced to the mining and manufacturing sectors.

Output in the mining sector rose 0.4 percent last month after August's initially reported gain of 1.0 percent was revised to a decline of the same magnitude. The relative stability of prices in recent months has helped to put a floor on new drilling, which should help future production. After tumbling more than 75 percent from its peak in 2014, drilling of oil and gas wells has inched higher for four consecutive months now. Oil and gas extraction, on the other hand, fell another 0.9 percent in September as previous cuts to investment weigh on current production.

Manufacturing, which accounts for just over three quarters of total industrial production, rose 0.2 percent last month. That put manufacturing production for the quarter up at a 0.9 percent annualized rate, which is an improvement over the prior three quarters, but still relatively weak. September's stronger than expected outturn for manufacturing was traced to a 0.5 percent gain in nondurables, while durables production was flat. Motor vehicles, which have been a source of strength over the past year, provided only a minor boost, up 0.1 percent. Auto inventories remain elevated and therefore a pullback in motor vehicles production would not be surprising in the months to come if the industry wants to limit discounting. With auto production likely to slow and equipment spending still weak, we remain cautious on the near-term outlook for factory activity.

Empire Survey Remained Weak in October

Elsewhere in the industrial space, the Empire State Manufacturing Survey indicated factory activity remained on the rocks in October. At -6.8, the index fell to a five-month low. The headline index, however, is based on a separate question on overall business activity. On an ISM-basis, the Empire survey improved slightly, up from -10 in September to -6.9 in October. With the exception of unfilled orders, all components improved over the month, but—barring prices—remain in negative territory. Given the noise in a single regional Fed survey from month to month, we will be looking to the Philadelphia Fed survey, out on Thursday, for a better sense of how factory activity is holding up.



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