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# 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 Gets Help From Old Man Winter

***A return to more seasonal wintry weather in December helped lift industrial production for the month. But manufacturing output edged higher as well even as the drag from the mining sector went away.***

### Base Effects & Return to Normal Weather

The headline increase for industrial production in December was stronger than expected. The bigger gain was partly a function of downward revisions to output figures for the prior month but mostly a big boost from utilities.

A pick-up in utilities for December was somewhat expected as temperatures returned to normal after a particularly warm autumn. Utilities output dropped off for three straight months this fall, so just "getting back to normal" resulted in a 6.6 percent spike in utilities output—the strongest monthly gain since 1989. An initially reported decline in November industrial production of 0.4 percent was revised to a 0.7 percent drop.

Utility output is notoriously volatile, which is why we use a three-month annualized rate and the year-over-year change to smooth out some of the choppiness in the middle chart. Even after accounting for the biggest monthly surge in 17 years, the three-month annualized rate is still in negative territory.

Mining output has been a steady drag on industrial production since oil prices peaked in the middle of 2014, but there was some relief here in December. Mining output was unchanged after declining in three out of the four prior months.

### Slow Expansion in Manufacturing

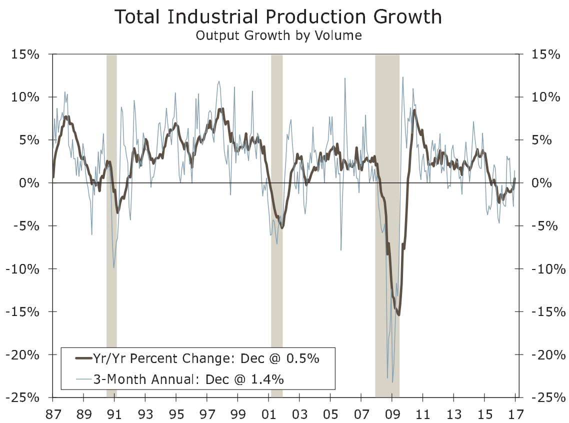
The firming we have seen in some of the orders data in recent months and the significant upturn in activity measures like the ISM index have yet to be fully manifested in the output figures in the industrial production report.

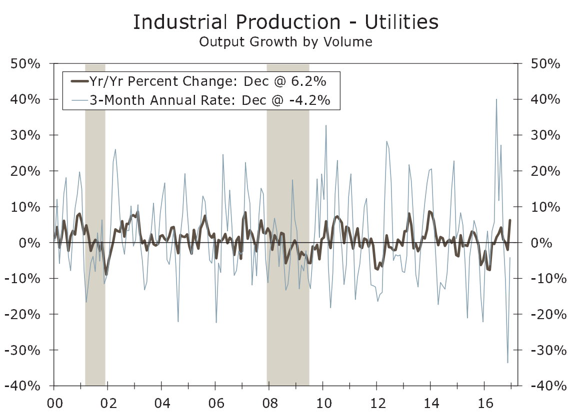
Manufacturing output increased 0.2 percent in December after a 0.1 percent decline in the prior month. This category comprises more than 78 percent of all industrial output.

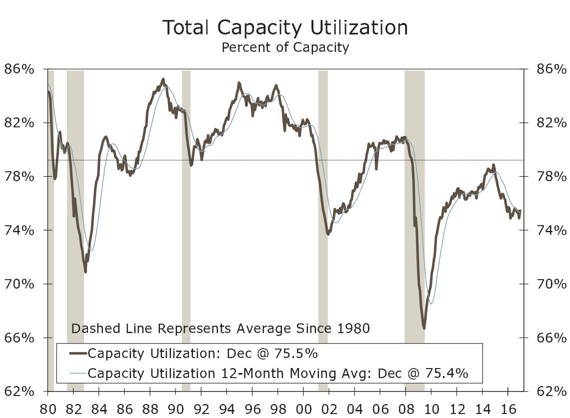
There was relatively broad-based participation in the various sub-categories of manufacturing output with increases in machinery as well as computers & electronics production. Motor vehicles production increased 1.8 percent, nearly reversing a 1.9 percent drop the month before. An increase in the ISM's production index to a two-year high in January bodes well for another gain next month.

### Capacity Utilization Reveals Plenty of Slack

There is still plenty of excess capacity in the nation's mines, factories and power plants. While it is true that utilization jumped 0.6 percentage points to 75.5 percent in December, November marked one of the lowest points for utilization since the economy recovered from the recession. The upshot is that although inflation is firming as we saw in the separately released CPI report earlier today, there will not be much in the way of upward price pressure from the manufacturing sector beyond rising material costs.




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<br>(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 |
| Anika R. Khan | Senior Economist | (212) 214-8543 | anika.khan@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 Analyst | (212) 214-5652 | erik.f.nelson@wellsfargo.com |
| Misa Batcheller | Economic Analyst | (704) 410-3060 | misa.n.batcheller@wellsfargo.com |
| Michael Pugliese | Economic Analyst | (704) 410-3156 | michael.d.pugliese@wellsfargo.com |
| Julianne Causey | Economic Analyst | (704) 410-3281 | julianne.causey@wellsfargo.com |
| E. Harry Pershing | Economic Analyst | (704) 410-3034 | edward.h.pershing@wellsfargo.com |
| Donna LaFleur | Executive Assistant | (704) 410-3279 | donna.lafleur@wellsfargo.com |
| Dawne Howes | Administrative Assistant | (704) 410-3272 | dawne.howes@wellsfargo.com |