



Economics Group

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

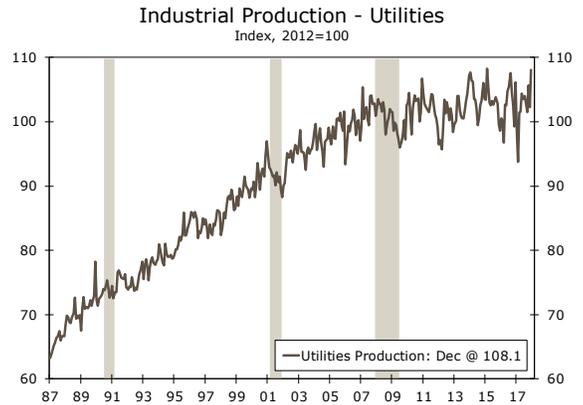
Mixed Report on Industrial Production

The 0.9 percent increase in industrial production for December handily exceeded expectations, but the strength was largely a function of a weather-related utilities surge.

What Utilities Say About the Weather and About the Cycle

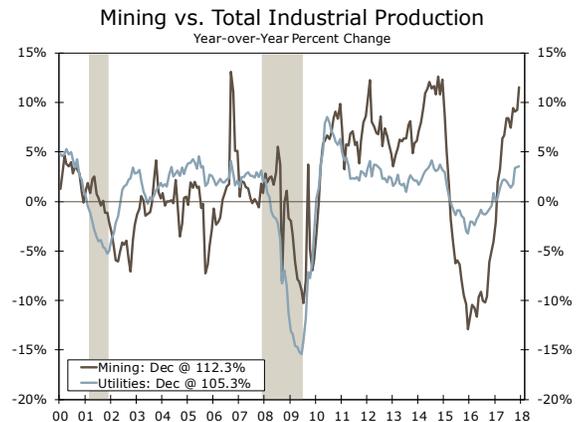
The 0.9 percent pick-up in industrial production was largely due to a weather-related payback in utilities production. Temperatures in December were actually a bit above average, but that followed a November which was a particularly warm month (the sixth warmest on record). The result was a 5.6 percent surge in utilities output for December following a 3.1 percent decline in the prior month.

While we admit that we tend to focus on the weather influence with utilities production, it bears noting that aside from the month-to-month noise, the utility component does contribute to a broader view of the industrial landscape. The top chart plots the index level for utilities, and we can see that this cycle has not seen as robust growth as the two prior cycles. That said, the index is now retesting the highest levels of the current expansion.



Mining

Mining production, which had surged earlier in this cycle only to decline when oil prices fell between 2014 and 2015, has been on an upward trend more recently. Mining increased another 1.6 percent in December notching the fourth straight monthly gain.



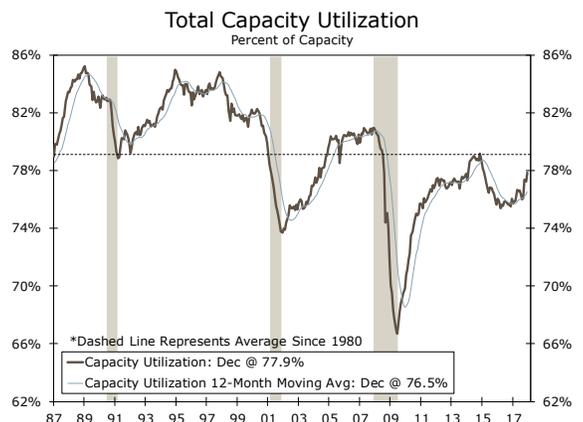
Manufacturing Slower than Survey Data Indicate

More than three quarters of all output is concentrated in the manufacturing sector. This heavyweight category came in a bit below expectations, adding just 0.1 percent in the final month of 2017. We note, however, that the 0.2 percent increase in November was bumped up in the revisions to a 0.3 percent gain. Coming on the heels of a 1.5 percent surge in October, the three-month annualized growth rate, now at 7.8 percent, is about as strong as we have seen since the very early days of the current expansion.

Still, the fact that the production component of the ISM index has been trending higher in recent months should indicate bigger gains for actual manufacturing output. The fact that the 65.8 reading for ISM production in December is met with only a 0.1 percent increase in December is a tad underwhelming. Last week, we upped our forecast for equipment spending in 2018, and as momentum builds in the manufacturing sector we expect to see a faster pace of expansion in manufacturing output in the months ahead.

Slack Means Little in the Way of Price Push from Factory Sector

Capacity utilization has been slow to return to pre-recession highs in this cycle. The peak for the current expansion was in 2014 when there was very little spare capacity in the mining sector. Broadly, capacity use is now at 77.9 percent, although both mining and utilities are north of 80 percent. Manufacturing was unchanged at 76.4 percent and suggests little inflation pressure from the manufacturing sector—at least for now.



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 Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@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

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2018 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES