

## Economics Group

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### IP's October Wallop Only Partially Due to GM Strike

**Industrial production (IP) fell 0.8% in October. While the GM strike and utilities accounted for most of the pullback, mining continues to retrench and the underlying trend in manufacturing output remains subdued.**

#### Softness All Around

We, along with other forecasters, knew industrial production was set to fall in October amid the General Motors strike, it was just a matter of how much. Industrial production fell 0.8% was the steepest one-month drop in more than 10 years. All major segments of the industrial sector got in on the action, with utilities, mining and manufacturing production declining last month.

After an unusually hot September, the return to more normal temperatures led to utilities output, which accounts for about 10% of industrial production, falling 2.6% in October.

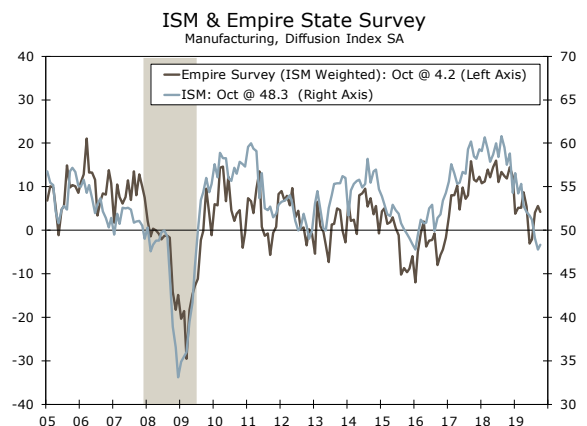
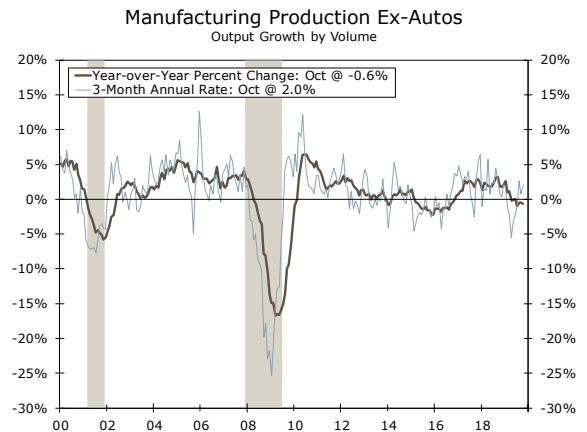
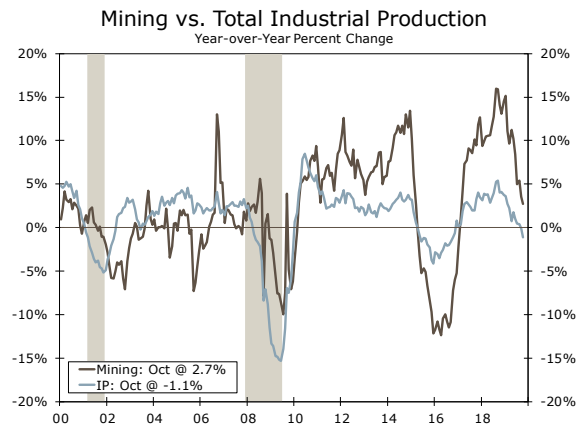
While utilities output says more about weather patterns than the economy in the short run, harder to brush aside was another drop in mining output. Mining production fell 0.7% last month and has cooled considerably over the past year after a steep decline in oil prices last fall and a pullback in new investment. While oil and gas extraction is still up 8% over the past year, drilling for new wells is down 19%. Meanwhile, non-oil and gas mining is down 5% amid declining output of coal, metal ores and other minerals.

We saw the effect of the GM strike in September, but it more clearly reared its head in the October manufacturing figures. Total factory output, which comprises about three quarters of industrial production, fell 0.6%, as the GM stoppage lasted almost the entirety of October. Specifically, output of motor vehicles & parts tumbled 7.1%. But outside the auto sector, manufacturing activity continues to flounder. Ex-motor vehicles and parts, output slipped another 0.1%. With the global backdrop still weak and trade policy still up in the air, we expect the underlying trend in manufacturing activity to remain subdued over the next few months.

#### Empire State Survey Shows Manufacturing Remains Cool

In a separate report earlier this morning, the Empire State Manufacturing Survey showed factory activity in New York State has been little changed. The New York Fed's gauge of manufacturing activity, the first of the November purchasing managers' indices, shed 1.1 point to land at 2.9. That kept the index in its fairly tight range since July of 2-5, hinting that while factory activity remains tepid, conditions are not worsening materially.

Among the subcomponents that align with the ISM headline (as compared to the single question that accounts for the Empire headline), inventories and delivery times fell further into contraction territory in November, while shipments eased but remained positive at 8.8. Encouragingly, the more forward-looking components of new orders and employment rose further into positive territory. The Empire Survey, however, has been somewhat out of sync with the national manufacturing data in recent months as the region is less exposed to trade with China, so the continued relative strength of the index must be viewed with some caution.



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