# ECONOMIC UPDATE

REGIONS

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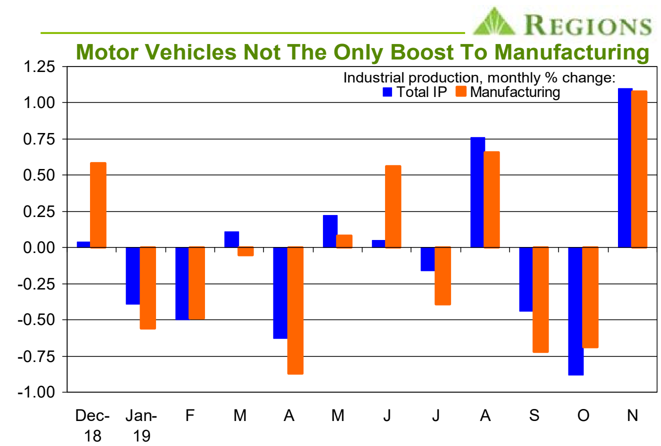
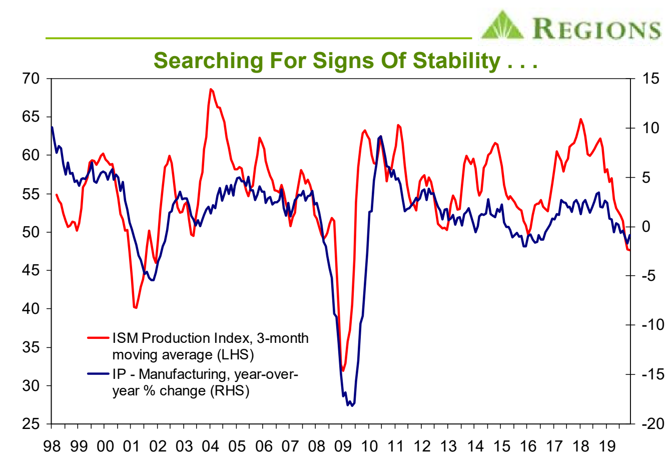
## November Industrial Production: Motor Vehicles Not The Only Boost To Manufacturing

- Industrial production <u>rose</u> by 1.1 percent in November, with manufacturing output <u>up</u> by 1.1 percent
- The overall capacity utilization rate <u>rose</u> to 77.3 percent, while the utilization rate in manufacturing <u>rose</u> to 75.2 percent
- On a year-over-year basis, total industrial production was <u>down</u> by 0.8 percent in November, with manufacturing output <u>down</u> by 0.8 percent

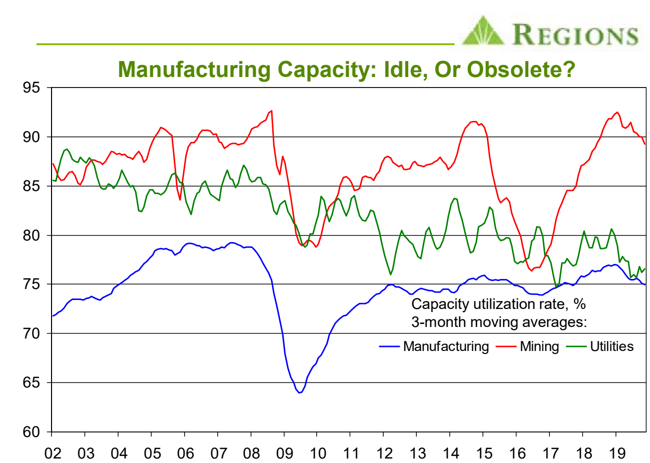
Total output amongst the nation’s factories, mines, and utilities rose by 1.1 percent in November, slightly lagging our above-consensus forecast of a 1.2 percent increase, with manufacturing output up by 1.1 percent. Mining output fell by 0.2 percent in November, with utilities output rising by 2.9 percent. It may be tempting to simply attribute the jump in manufacturing output, and in turn total industrial production, to GM having resumed production once their striking workers returned to the job, but there is more to it than that, as manufacturing output excluding motor vehicles and parts notched a 0.3 percent increase. While by no means even approaching robust growth, this nonetheless is encouraging given the list of headwinds that have been confronting the factory sector over the past several months. Indeed, we’ve described the GM strike as nothing more than transitory noise that was deflecting attention away from those headwinds, some of which seem to have abated of late. Still, don’t put those noise-canceling headphones away just yet, as Boeing’s decision to scrap production of the 737 Max will have an adverse impact on the data on factory orders, industrial production, and real GDP, over coming months. For now, however, we’ll take the report on November industrial production as an encouraging sign for the manufacturing sector.




Assemblies of automobiles and light trucks rose to an annualized rate of 11.107 million units in November, off of an upwardly revised rate of 9.210 million units in October. These monthly figures of course reflect the impact of the GM strike, but the average of the October and November assembly rates is still below the longer-term run rate in place prior to the strike. That tells us that the November data on industrial production capture most, but not all, of the effect of GM having resumed production, so we will not be surprised to see motor vehicle production provide a modest lift to the December data on manufacturing output. That said, the more fundamental challenge for the auto industry is that the trend rate of motor vehicle sales is decelerating, though gently up until this point, while at the same time the new trade agreement between the U.S., Canada, and Mexico will likely raise the costs of producing vehicles in the U.S. At the same time, assemblies of heavy trucks have drifted lower, which at least to some degree reflects excess capacity in truck transportation, which suggests assemblies of heavy trucks may show more pronounced weakness at some point than has thus far been the case.




As noted above, excluding motor vehicles and parts, manufacturing output rose by 0.3 percent in November. Production in the broad business equipment category, a marker of trends in broader business investment as measured in the GDP data, rose by 1.7 percent in November on the heels of significant back-to-back declines in the prior two months. On an over-the-year basis, output in this industry group is down 1.4 percent, a much sharper decline than either the broad manufacturing sector (down 0.8 percent) or the ex-motor vehicles segment (down 0.9 percent). Though it’s never wise to read too much into any single data point, that business equipment output rose smartly in November follows a jump in core capital goods orders in October (November orders data are not yet available), which adds to signs of at least some stabilization in the factory sector.




Whether, or to what extent, this arrests the decline in business fixed investment in the GDP data remains to be seen. After all, the notably low capacity utilization rate in the manufacturing sector calls into question the need for firms to invest in additional capital, which would bode poorly for any rebound in business investment. We’ve questioned, however, whether this is idle capacity or, given the advanced age of the capital stock, obsolete capacity that is still lingering on the books. To the extent this idle capacity is functional, that would suggest little upside room for business investment but if, as we’ve argued, it is obsolete, that points to more upside room for business investment than is implied by simply looking at utilization rates. With perhaps finally some clarity on trade, we may actually begin to see an answer to that question in the months ahead.

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