

## US: STRONG INDUSTRIAL ACTIVITY AND SENTIMENT TO CONTINUE INTO 2018

*\*Industrial production rose by a modest 0.2% m/m in November - after an outsized 1.2% m/m post-hurricane rebound in October - lifting the yr/yr growth to a strong 3.4% (see Chart 1)*

*\*Three of the four major categories increased: motor vehicle (+0.1%), manufacturing ex motor vehicles (0.2%) and mining (2%). Utilities production fell 1.9% as an unseasonably warm November lessened heating demand, and will weigh on services consumption in GDP*

*\*Empire State manufacturing sentiment moderated in early December, falling 1.4pts to 18, but continues to point to further expansion in activity and strong capex and technology spending plans*

### Industrial Production

Manufacturing production excluding motor vehicles - a reliable gauge of underlying manufacturing demand - continued to grow solidly, maintaining above 2.4% yr/yr growth for the last two months. The 5% yr/yr increase in business equipment production suggests that momentum on the factory floor is poised to accelerate into 2018 and that business fixed investment will again contribute significantly to Q4 GDP (see Chart 2).

The bounce back in investment in the oil and gas sector that drove a decent share of the improvement in early 2017 has been a source of strength, but non-energy production has gathered significant momentum (see Charts 3 and 4).

Despite the strong gains in production, there are no signs of overheating - the capacity utilization rate of 77.1% is well below historical levels and recent highs and suggests that there is plenty of room for further expansion (see Chart 5).

### Empire State Manufacturing Sentiment

The details of the Empire State manufacturing surveys were broadly strong, with the ISM-adjusted index -average of new orders, production, employment, supplier deliveries, and inventories indexes - unchanged at 55.3 (see Chart 6). The measures of current activity and future demand - new orders and shipments - remained elevated, and delivery times increased, possibly due to suppliers having difficulty meeting the strong demand.

The prices paid and received indexes in the current conditions section of the report both increased in December, while in the six months ahead section the prices paid and received indexes continued to increase, providing an early sign that more businesses expect real sales to rise sufficiently for them to charge higher prices (see Chart 7). The November producer price index provided some signs of building inflation pressures in the manufacturing pipeline (see Chart 8).

The six-month outlook remained optimistic, with the future general business conditions index at 46.6. *Future capex and technology spending plans both surged (see Chart 9)*. Business confidence is buoyed by the thrust toward deregulation and expectations of tax legislation that would significantly lower the corporate tax rate, reduce the effective tax rate for pass-through businesses and allow full immediate expensing of new equipment. Moreover, strong global growth is fueling demand for U.S.-manufacturing goods, and low interest rates and rallying equity markets have created a very favorable financial backdrop.

15 December 2017

Chart 1: Industrial Production (year-over-year, %)



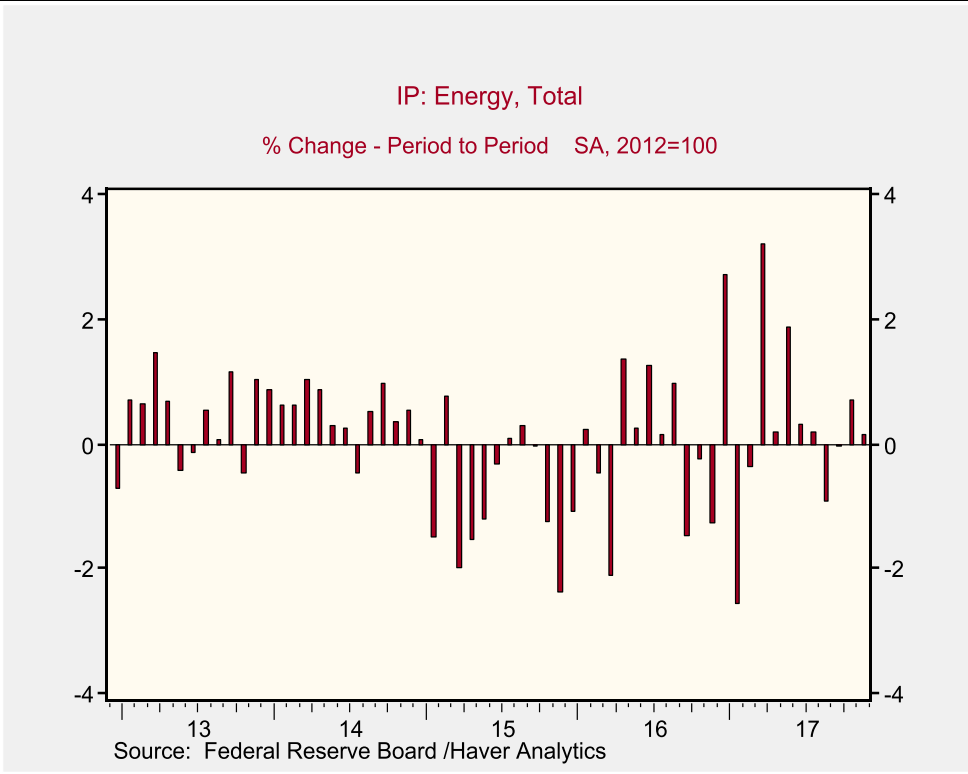
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 2: Business Equipment Production (year-over-year, %)



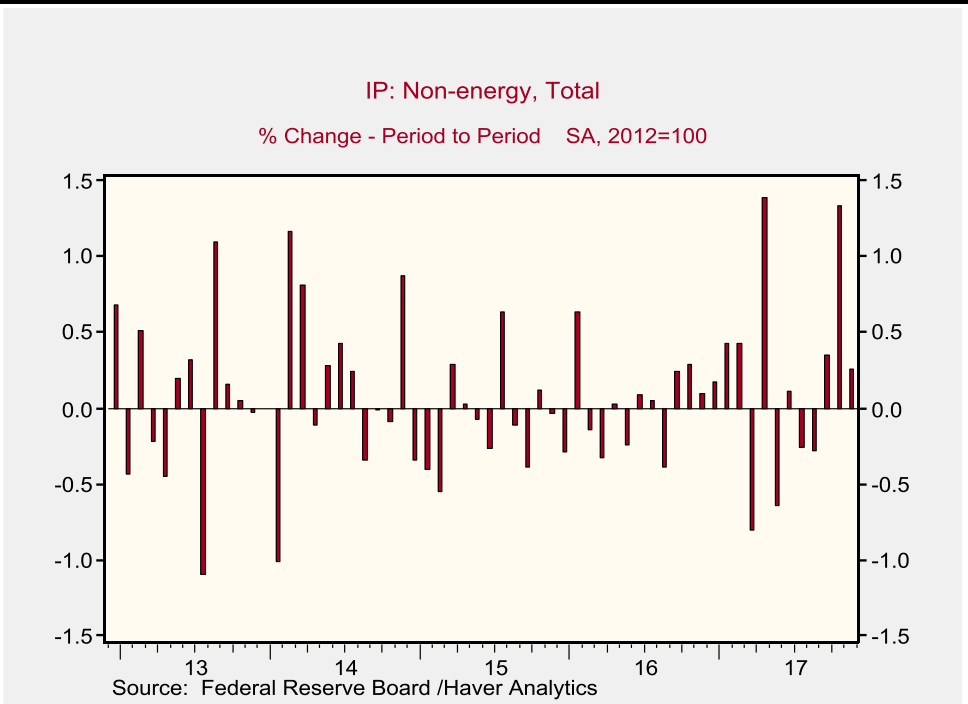
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 3: Industrial Production: Energy (month-over-month, %)



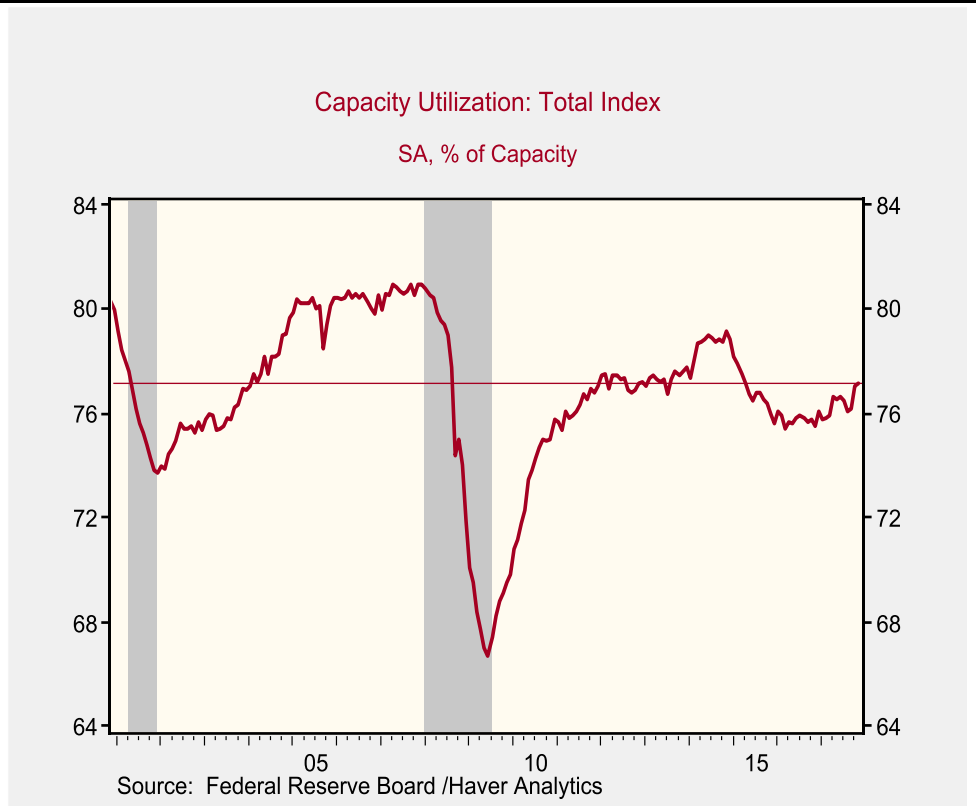
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 4: Industrial Production: Non-Energy (month-over-month, %)



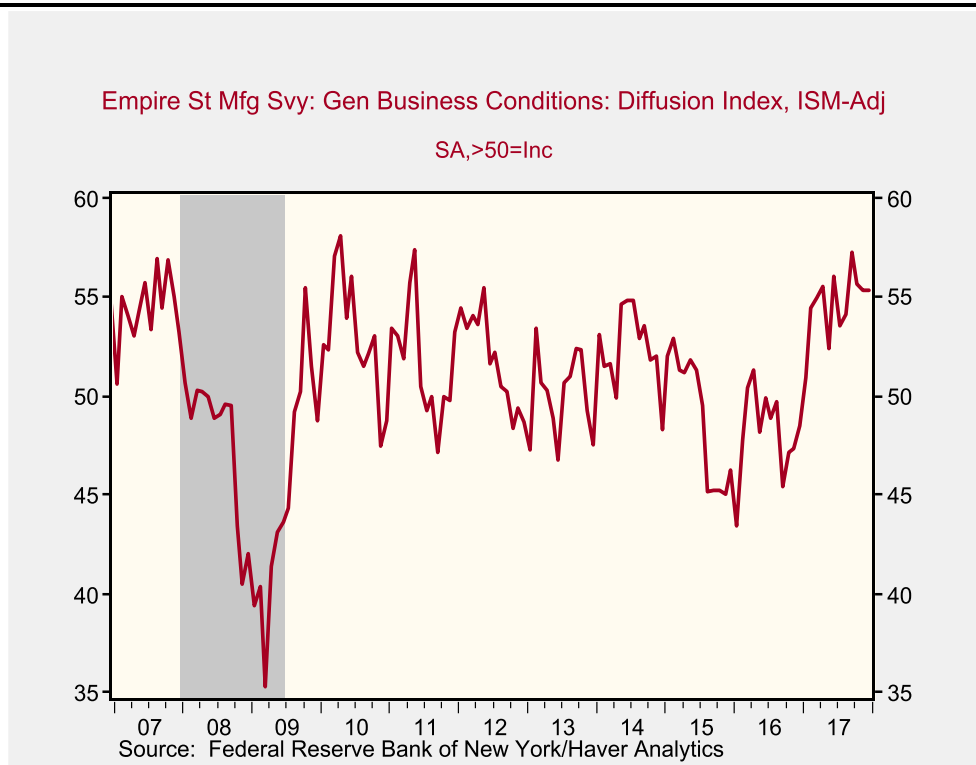
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 5: Capacity Utilization Rate



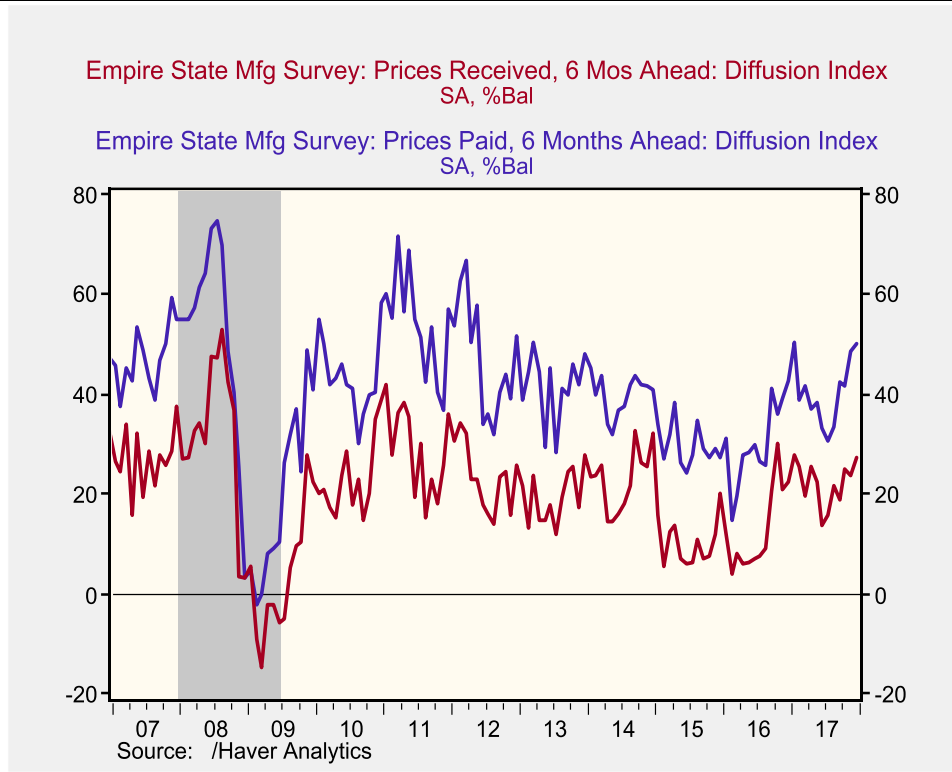
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 6: Empire State Manufacturing ISM-Adjusted Indexes



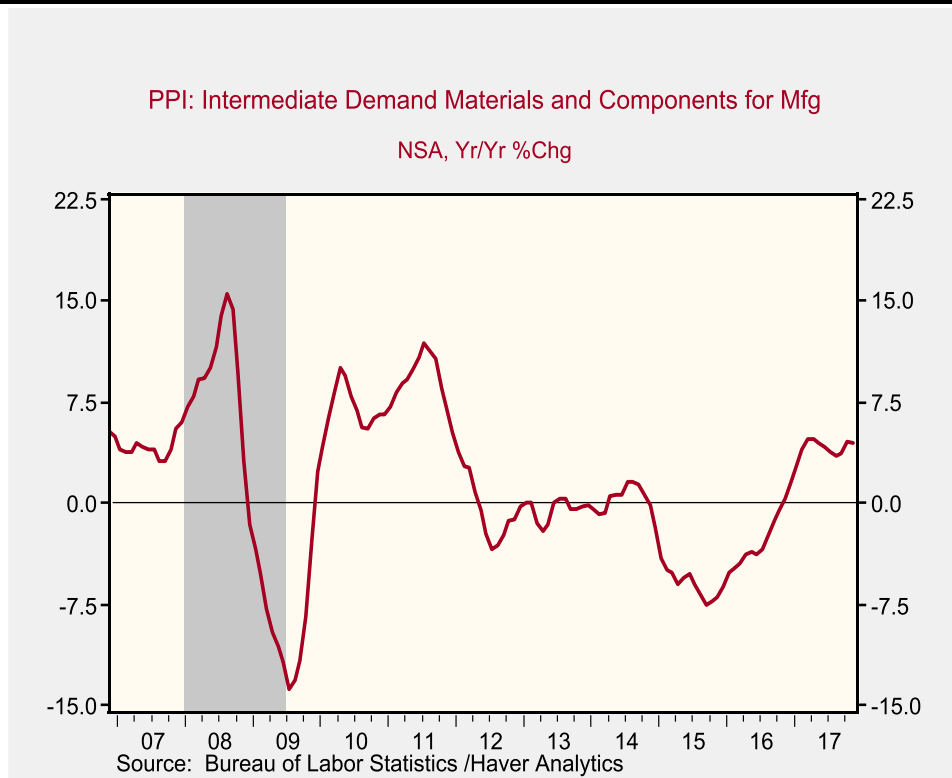
Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

Chart 7: Empire State Manufacturing Prices Paid and Received 6-Months Ahead Index



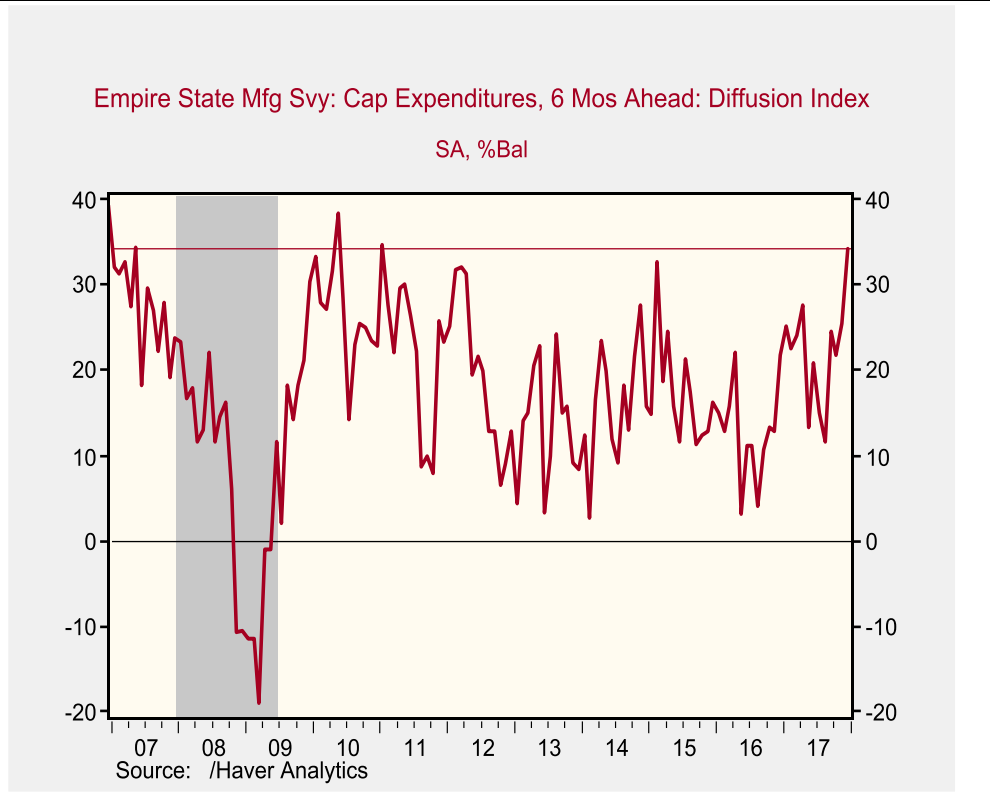
Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

Chart 8: Producer Price Index: Intermediate Demand Materials and Components for Manufacturing



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 9: Empire State Manufacturing 6-Months Ahead CapEx Index



Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

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