

Economic Analysis

Second Straight Decline for Industrial Production

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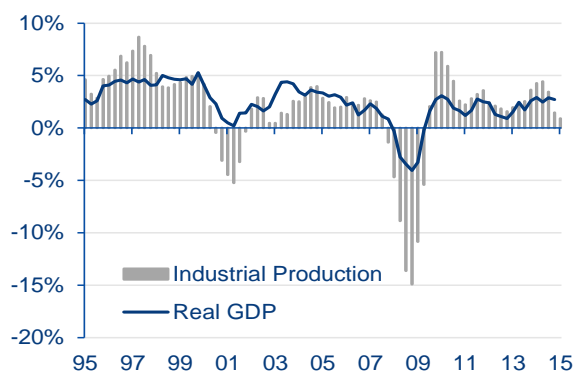
- **Total industrial production fell 0.2% MoM—the seventh MoM decline this year**
- **Manufacturing declined 0.1% MoM due to weak foreign demand**
- **Mining dropped 2.0% MoM and suffered its biggest YoY decline since November 2009**

Although in line with expectations, today's industrial production release ends the third quarter on a sour note. Industrial production dipped 0.2% MoM in September and was up 0.4% YoY—its smallest YoY gain since December 2009. Industrial production for August was revised upward but remained negative at -0.1% MoM, largely due to upward revisions in the mining and utilities components.

Both manufacturing and mining contributed to September's decline in output. Manufacturing output fell 0.1% MoM after dropping 0.4% MoM in August. Durable goods were hit hardest, with the sharpest drop being in electrical equipment, appliances, and components which declined 2.3% MoM amid lower foreign demand and higher competition from imports. Motor vehicles and parts output inched up 0.2% MoM after plunging 5.4% MoM in August, and on a YoY level, remains the strongest of all categories, surging 9.4%. Mining output fell 2.0% MoM and had its largest YoY decline since November 2009, sinking 5.7%. The trend of prolonged low oil prices is forcing oil producers to scale back drilling operations, contributing to the decline in mining output. Utility output is a bright spot in this release and was revised upward for August as well, rising 1.3% MoM in both months. Unseasonably warm temperatures around the country in September heightened cooling needs and drove the increase in utility output.

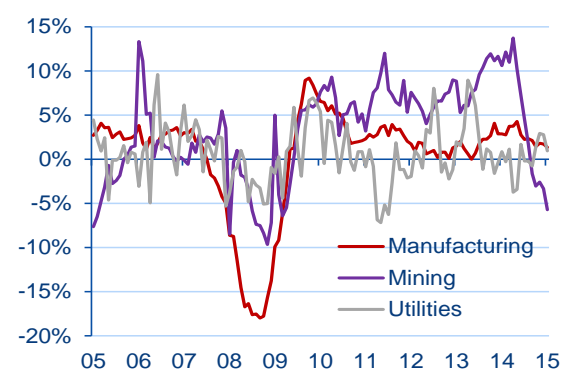
The slack in factory output, measured by capacity utilization, fell to 77.5%, indicating that domestic industries continue to produce below potential. The manufacturing sector's excess capacity is especially troubling as it suppresses the cost of goods. Combined with yesterday's [inflation report](#), this industrial production release confirms a weak third quarter and could strengthen the argument of those advocating a delay in liftoff past December.

Chart 1
Industrial Production Index (YoY % Change)



Source: BBVA Research, FRB & BEA

Chart 2
Industrial Production Components (YoY % Change)



Source: BBVA Research & FRB

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