

Economic Analysis

October Industrial Production Disappoints

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- **Total industrial production fell 0.2% MoM—the seventh MoM decline this year**
- **Manufacturing increased 0.4% MoM as output of durable and nondurable goods rose**
- **Mining dropped 1.5% MoM and suffered its biggest YoY decline since August 2009**

October's industrial production release surprised to the downside, declining 0.2% MoM and up only 0.4% YoY—its smallest YoY gain since the end of 2009. Capacity utilization fell slightly to 77.5% from September's reading of 77.7%, though manufacturing capacity utilization ticked up 0.3% to 76.4%.

Manufacturing output was up 0.4% MoM, growing for the first time since July. Almost all categories of durable manufacturing output recorded increases, with nonmetallic mineral products recording the largest increase at 2.2% MoM. In nondurable manufacturing, textile and product mills increased 1.9% MoM, though apparel and leather output decreased 2.6% MoM. The mining industry continued to contract as the oil and gas industry suffers from the continued pressure of low oil prices, with output down 1.5% MoM after September's downwardly-revised 2.4% MoM decline. On a YoY level, mining output sunk 6.9% compared to last month's 5.7% decline. Utility output decreased 2.5% MoM as the impact of unseasonably warm temperatures around the country in October reduced heating needs and drove the decrease in electric power output of 3.1% MoM, overshadowing a 2.7% MoM increase in natural gas distribution.

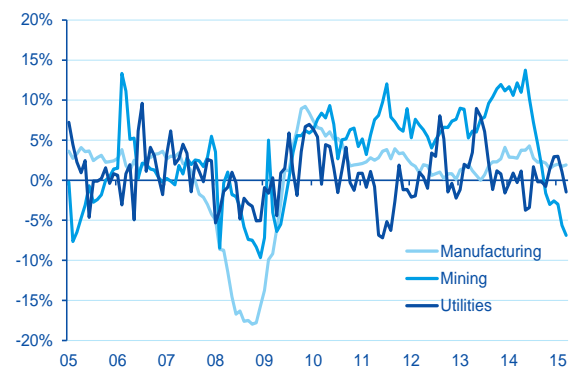
October's decline in industrial production continues to show the effect low oil prices are having on the energy sector as it continues to shrink rapidly. However, the broad-based uptick in manufacturing output points to the slackening of the inventory headwinds that weighed on real GDP growth in the third quarter. Combined with October's [CPI report](#) that indicated some inflationary pressures and the month's encouraging employment report of a tightening labor market, this industrial production report reaffirms our expectations for a stronger 4Q to close out the year.

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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