

U.S. Flash

Industrial Production Surges on Increased Utilities Output

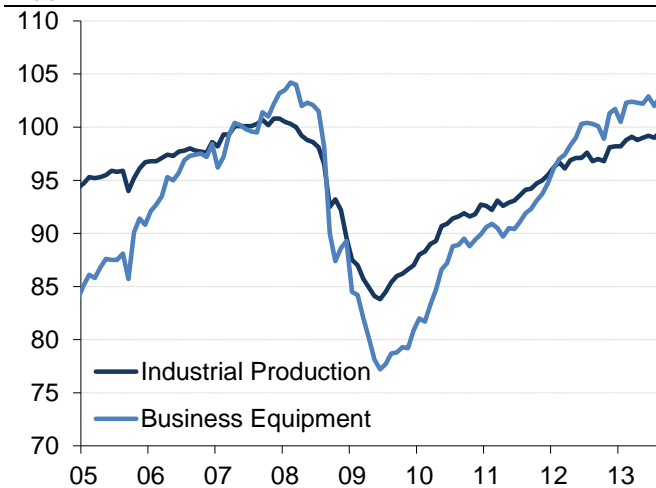
- Total output increased 1.1% in November, marking the biggest jump in 2013
- Utilities output led production growth with a 3.9% increase from October
- Manufacturing continues to gain momentum as the 2014 outlook improves

Industrial production rose by a surprising 1.1% in November as utilities output surged 3.9% while mining and manufacturing also helped to push the index upwards. The utilities gain was led by a combination of an increase in electric power generation as well as natural gas distribution growth, both of which be attributed to the colder-than-expected winter experienced across the country. Manufacturing, which is the more important component to watch, gained 0.6% in November as both durable and non-durable goods production rose for the month. The durable goods production increase was led by an increase in motor vehicle production, which jumped by 3.5% in November following a 1.3% decline in October. Nondurables also provided some fuel for the increase, climbing 0.4% led by increases in texting and product mills production. Capacity utilization also rose slightly to accommodate the increase in durable goods production, which rose to 79.0 in June. Finally, mining output bounced back with a 1.7% increase in November after experiencing a sluggish decline of 1.5% in October.

Overall, November's industrial production report hints at positive momentum moving forward, particularly for manufacturing. The total 1.1% rise was welcomed and the jump in durable and nondurable goods signals that the U.S. economy is experiencing solid growth in 2H13. More importantly, the outlook for 2014 is becoming brighter as additional data point towards a more stable footing for the recovery. This could carry key implications for the Federal Reserve and monetary policy regarding the timing of tapering. With the Federal Reserve expected to make an announcement regarding tapering on Wednesday, we expect positive economic data to increase the chances that the board makes the decision to taper sooner rather than later.

Chart 1

Industrial Production Index



Source: Federal Reserve Board & BBVA Research

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