

## United States

### Drop in industrial production marks disappointing start to fourth quarter

- **Industrial production falls 0.1% in October**
- **0.3% upturn in manufacturing points to firmer underlying trend**

A surprise fall in industrial production represented a disappointing start to the fourth quarter, but is likely to be brushed off by the Fed, who will no doubt focus on the improving pace of expansion signalled in the manufacturing sector. However, even situation in manufacturing falls well short of the strong pace of expansion seen earlier in the year, suggesting policymakers will be wary of tapering policy in December, waiting instead until growth is back on a firmer footing.

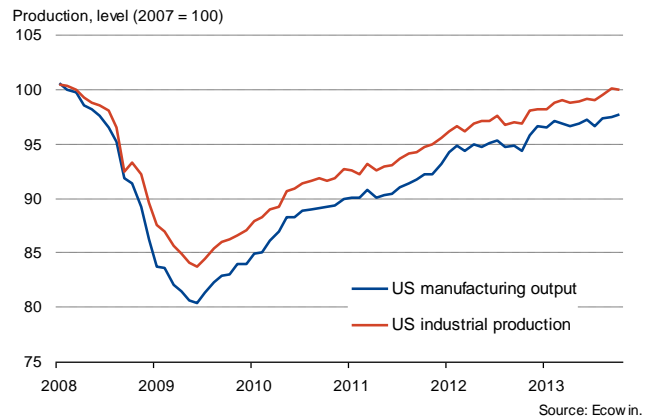
#### Industrial production falls

US industrial production fell 0.1% in October according to official data from the Federal Reserve, dashing expectations of a 0.2% rise among economists polled by Reuters. However, the fall was largely blamed by the Fed on oil and gas rig shutdowns in the Gulf of Mexico. Manufacturing output rose 0.3%, in contrast, in line with expectations, providing a much more encouraging picture of an economy that weathered the storm of the government shutdown.

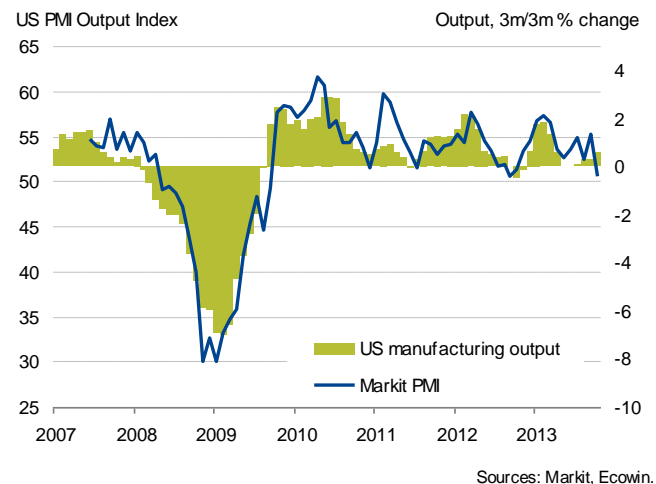
The upturn in the goods producing sector is most likely providing the best guide to the underlying health of the industrial sector, pointing to an ongoing but only modest pace of growth. Manufacturing output has now risen for three successive months, taking the quarterly rate of growth up to 0.6% in the three months to October, its highest since April and signalling a marked improvement since the stagnation in the quarterly rate seen in May. However, the quarterly rate of expansion was running at 1.9% back in February, more than three times the current rate.

We expect industry to remain on a modest upward growth path as we move towards the end of the year. Both the business surveys and official payrolls data indicate that companies continued to hire extra staff in October, which suggests that firms have confidence

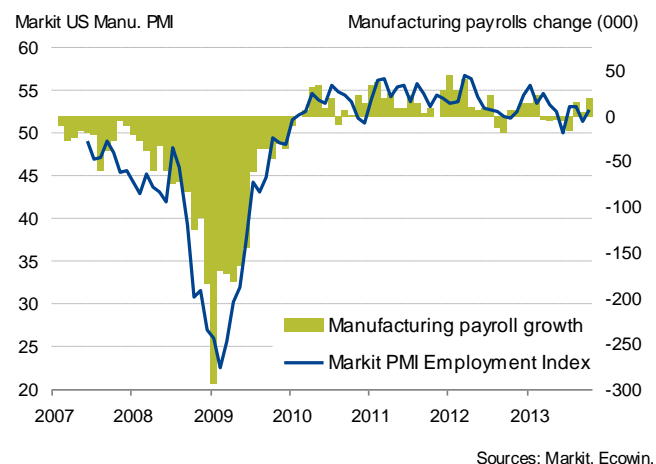
#### US industrial production



#### Manufacturing output



#### Manufacturing employment



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that business levels will continue to rise. Manufacturing alone took on 19,000 more staff during the month, its highest rate of job creation since February.

Markit's Manufacturing PMI had signalled a downturn in industrial sector growth due to the government shutdown (data were collected at mid-month), dropping from 52.8 in October to a one-year low of 51.8. However, the survey's employment index rose compared with October, adding to the brighter underlying trend.

### **Manufacturing growth still weak, well down on start of year**

The drop in industrial production certainly represents a poor start to the fourth quarter in terms of GDP, and the relatively weak pace of growth compared to earlier in the year adds to the sense that the economic upturn lacks serious momentum. As such, the data will do little to add to the likelihood of the Fed tapering of its quantitative easing programme at its December meeting, deciding instead to await a clear picture of the true underlying health of the economy in the new year.

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