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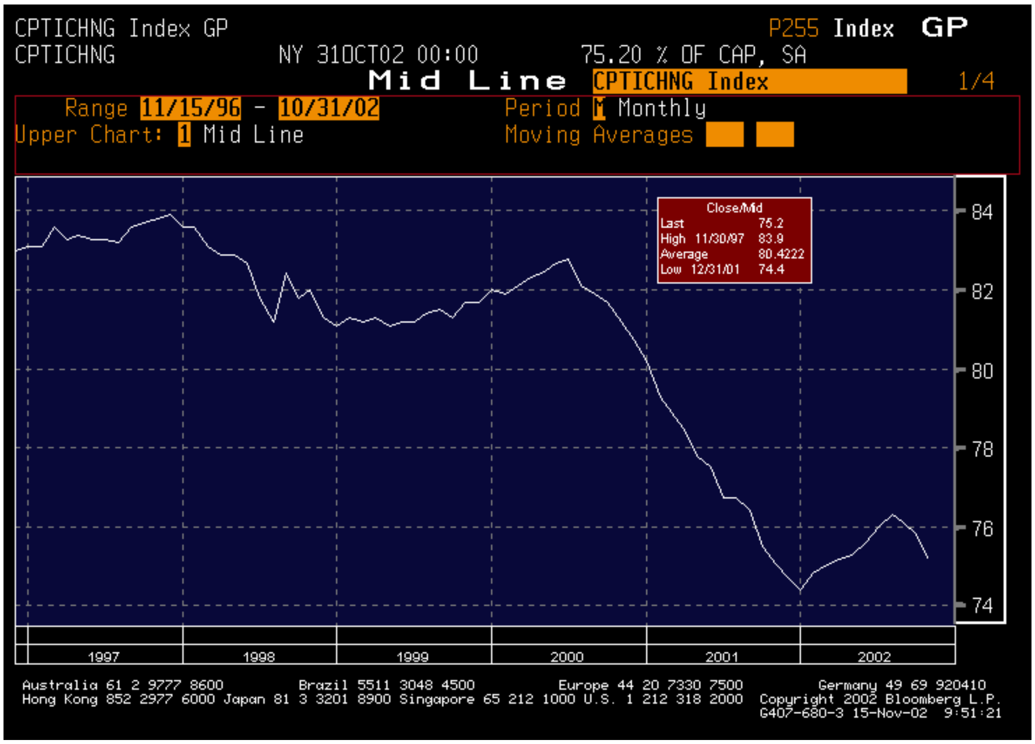
If I DIDN'T KNOW BETTER, I WOULD GUESS THIS IS THE IDES OF MARCH



INDUSTRIAL PRODUCTION: another slip to the Double Dip?

A big contributor to the fall in the industrial production index from 140.4 to 139.3 was the index for auto and light truck production). Auto parts production also slipped, but an inspection across a wide variety of industries shows a downward turn. **The uniformity of the decline is bothersome.** It may reflect some problem with seasonals, but one cannot ignore the direction of a trend that has lasted three months. Along with increased inventory holding, the appearance of slippage in the manufacturing base of the economy is significant. It is a trend that cannot continue if a double dip is to be avoided. Still, ambiguity haunts our data stream since the PPI rose today by 1.1% with large changes in components relating to autos (autos rose 2.2% and gasoline 17.9%). Core PPI less autos scarcely moved. The survey period, however, comprises a period of falling auto sales and it could be that while the October PPI data for autos includes the new models, a period of falling prices coupled to a model changeover month leads to ambiguity for the future course of auto prices. Just in time manufacturing might imply a slight rise in current inventories, but a downward shock to production (and perhaps employment) as we proceed into QIV is a setback since a significant decline in auto production would then force a readjustment of estimates for GDP in QIV. These are indeed 'interesting times.' (Remember the Chinese saying was originally intended as a curse!). But if manufacturers are gloomy, seeing only dark clouds ahead, consumer expectations for the future have turned up! Go figure!

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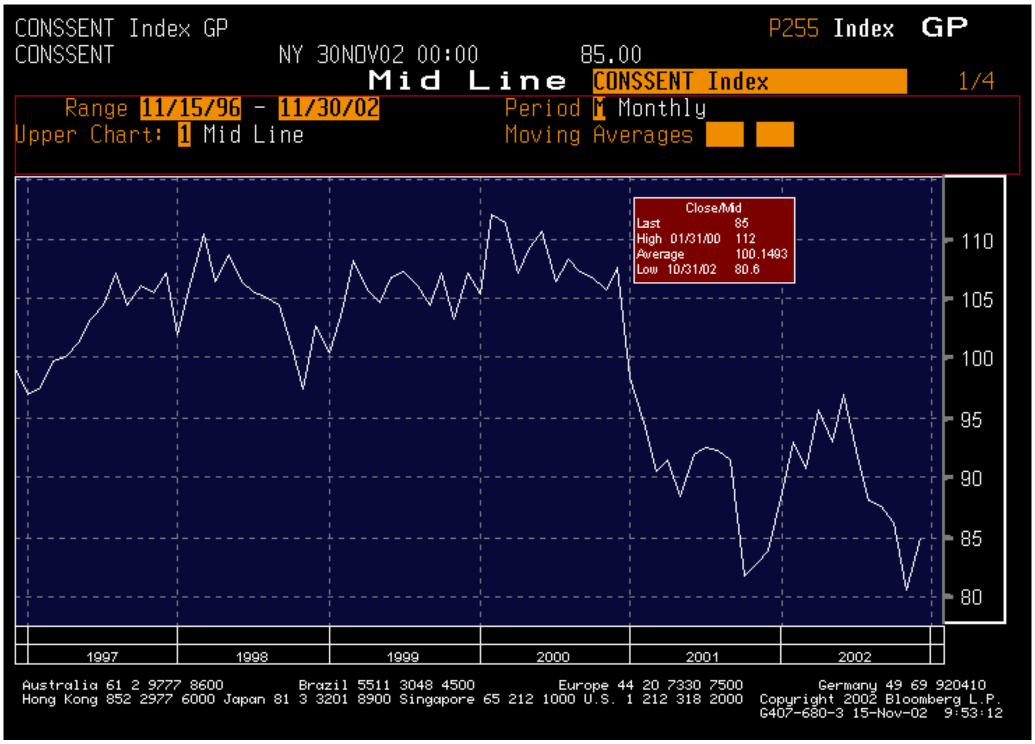

U MICH Consumer Sentiment

Smiling consumer faces are hard to reconcile to the black clouds hanging over manufacturing. Noting that the index (which rose from 80.6 to 85) did so by the larger (percentage) jump in the forward expectations component (73.1 to 79.2). Why do consumers believe that a better day is coming? A rally in the equity market since October 9th and the appearance of a 'friendly Fed' and perhaps more comfort in the outcome of the election? We cannot be sure.

Bottom Line: We wrote about the apparent divergence of opinion at the FOMC meeting. The data confirm that the members had a basis for their confusion. **The signals are quite divergent.** Consumer sentiment is a poor predictor of consumer spending, so, even a better sentiment number does not mean the consumer will hang tough, despite help from the Fed.

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