December Industrial Production / Capacity Utilization

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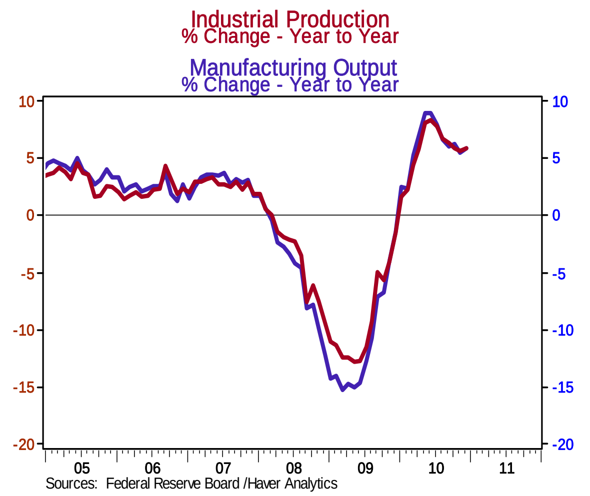
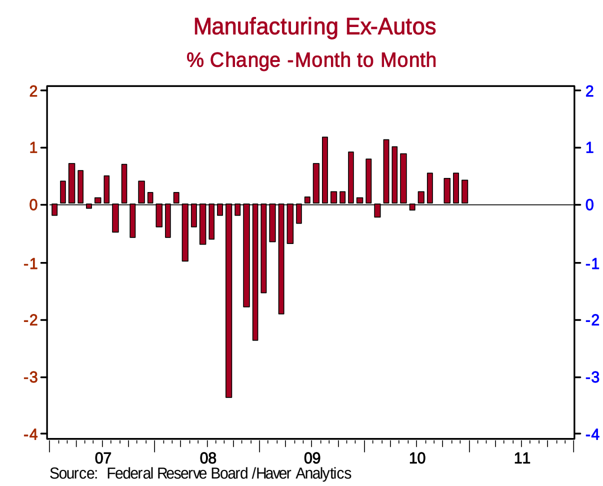
- Industrial production increased 0.8% in December (+1.1% including upward revisions for prior months), easily beating a consensus expected gain of 0.5%. Production is up at a 5.0% annual rate in the past six months.

- Auto production dropped slightly in December but was up including revisions to November. Overall, manufacturing in December was up 0.4%. Non-auto manufacturing was up 0.4% as well. In the past six months, auto production is down at a 1.9% annual rate while non-auto manufacturing is up at a 4.4% rate.

- The production of high-tech equipment was up 1.1% in December, was revised up for prior months, and is up at a 7.1% annual rate in the past six months.

- Overall capacity utilization rose to 76.0% in December, the highest since August 2008. Manufacturing capacity use increased to 73.2%, also the highest since August 2008.





Implications: The surprisingly strong increase in industrial production in December was largely powered by a 4.2% increase in utility output, a function of unusually cold weather on the East Coast. However, manufacturing still expanded a robust 0.4% in December, the sixth consecutive increase. Moreover that 0.4% gain in manufacturing came with no help from the auto sector, which reduced production slightly. The recent negative trend for auto production will not continue. Auto sales were up substantially in 2010 and are likely to continue to improve in 2011. That's why analysts are already forecasting a hefty increase in activity at automakers in the first quarter. In mid-2009, capacity utilization was at a 45-year low of 68.2%. Now, only 18 months later, capacity utilization is almost 8 percentage points higher, at 76%. Two factors are boosting utilization: expanding output and a depreciating capital stock. In fact, because of depreciation, total capacity (the ability to produce) in manufacturing has fallen back down to 2007 levels. We expect capacity utilization to climb to near the long-term average of 80% by later this year, compelling companies to accelerate investment in plant and equipment.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Dec-10**	**Nov-10**	**Oct-10**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**0.8%**	0.3%	-0.1%	3.9%	5.0%	5.9%
Manufacturing	**0.4%**	0.2%	0.4%	4.4%	4.7%	6.4%
Motor Vehicles and Parts	**-0.1%**	-5.3%	1.5%	-15.0%	-1.9%	4.8%
Ex Motor Vehicles and Parts	**0.4%**	0.5%	0.4%	5.8%	4.4%	5.8%
Mining	**0.4%**	-0.7%	0.3%	0.0%	9.6%	10.1%
Utilities	**4.2%**	1.5%	-4.3%	5.2%	3.2%	2.0%
Business Equipment	**0.6%**	0.4%	1.4%	10.0%	8.7%	11.8%
Consumer Goods	**1.1%**	-0.5%	-0.1%	1.7%	2.3%	3.1%
High-Tech Equipment	**1.1%**	0.7%	-0.1%	6.9%	7.1%	12.1%
Total Ex. High-Tech Equipment	**0.9%**	0.2%	-0.1%	3.9%	4.6%	5.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**76.0**	75.4	75.2	75.5	75.3	74.3
Manufacturing	**73.2**	72.9	72.8	73.0	72.7	71.7

Source: Federal Reserve Board