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January Industrial Production / Capacity Utilization

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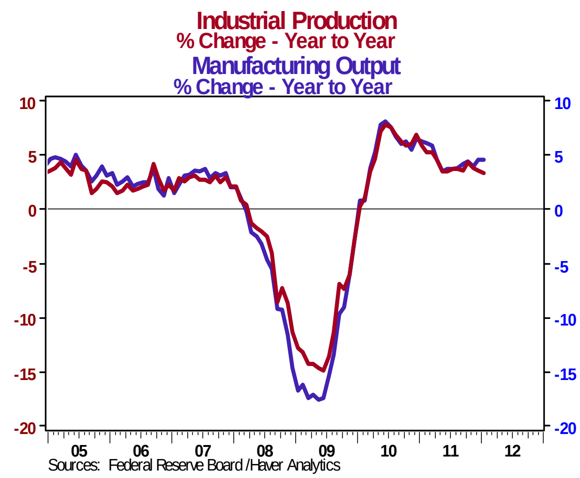
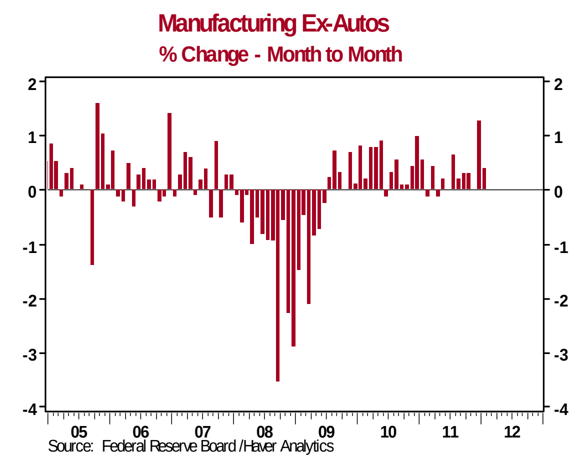
- Industrial production was unchanged in January, but up 0.6% including large upward revisions to prior months. The consensus expected a gain of 0.7%. Production is up 3.3% in the past year.
- Manufacturing, which excludes mining/utilities, surged 0.8% in January and was up 1.4% including upward revisions to prior months. Auto production increased 6.9% in January while non-auto manufacturing rose 0.4%. Auto production is up 17.0% versus a year ago while non-auto manufacturing is up 3.8%.
- The production of high-tech equipment increased 0.5% in January, but is down 0.3% versus a year ago.
- Overall capacity utilization ticked down to 78.5% in January from 78.6% in December. Manufacturing capacity use increased to 77.0% in January from 76.5% in December.

Implications: Today's report on the factory sector was very deceptive. Industrial production was unchanged in January, which was much less than the consensus expected. But prior months were revised up by 0.6%. More importantly, overall industrial production was held down by a steep drop in utility and mining output. Warm weather means less energy use. Taking out utilities and mining leaves just the manufacturing sector, which rose 0.8% in January and 1.4% including upward revisions for prior months. The January surge was led by a 6.9% gain in auto production. Excluding autos, which are volatile from month to month, manufacturing still increased a solid 0.4%. Higher production is making factories use higher levels of capacity. Utilization in manufacturing is now at 77%, the highest since April 2008 and near the 20-year average of 77.7%. As capacity use moves higher, firms have an increasing incentive to invest in more plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments. In other news today, the Empire State index, a measure of manufacturing activity in New York, increased to +19.5 in February from +13.5 in January. As recently as October, the index was -7.2. On the housing front, the market index from the National Association of Home Builders, which measures their confidence, increased to 29 in February, beating consensus expectations and the highest reading since 2007. As recently as September, the index was 14. The bottom line is that US manufacturers and home builders both have reason to cheer.





Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Jan-12	Dec-11	Nov-11	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.0%**	1.0%	0.0%	3.8%	3.9%	3.3%
Manufacturing	**0.8%**	1.5%	-0.2%	8.5%	6.4%	4.7%
Motor Vehicles and Parts	**6.9%**	3.7%	-2.6%	36.1%	29.9%	17.0%
Ex Motor Vehicles and Parts	**0.4%**	1.3%	0.0%	7.1%	5.3%	3.8%
Mining	**-1.8%**	0.9%	0.7%	-0.7%	4.9%	5.8%
Utilities	**-2.4%**	-2.5%	0.1%	-17.8%	-16.0%	-7.5%
Business Equipment	**1.9%**	1.4%	0.6%	16.4%	15.1%	10.9%
Consumer Goods	**-0.1%**	0.9%	-0.6%	0.4%	0.9%	0.5%
High-Tech Equipment	**0.5%**	0.4%	0.0%	3.6%	0.6%	-0.3%
Total Ex. High-Tech Equipment	**0.1%**	1.0%	0.0%	4.3%	3.9%	3.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.5**	78.6	77.9	78.3	78.1	77.4
Manufacturing	**77.0**	76.5	75.4	76.3	75.8	75.2

Source: Federal Reserve Board