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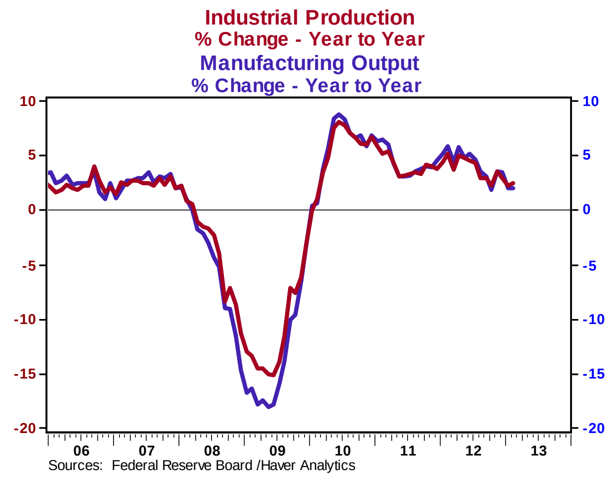
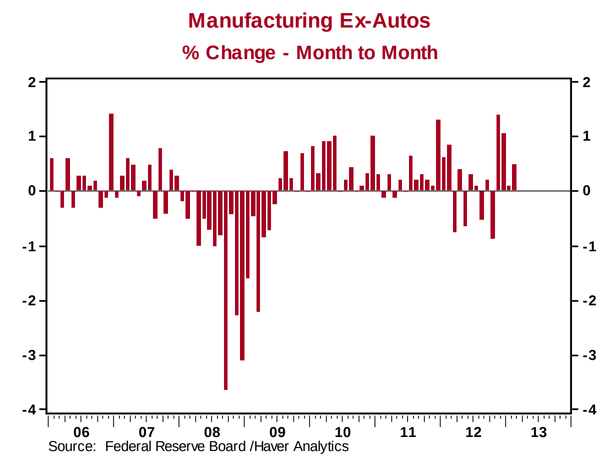
February Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Industrial production rose 0.7% in February, coming in above the consensus expected gain of 0.4%. Including revisions to prior months, production was up 0.9%. Production is up 2.5% in the past year.
- Manufacturing, which excludes mining/utilities, increased 0.8% in February (1.1% including revisions to prior months). Auto production rose 3.6% in February, while non-auto manufacturing increased 0.5%. Auto production is up 9.3% versus a year ago while non-auto manufacturing is up 1.4%.
- The production of high-tech equipment rose 0.4% in February, but is down 1.7% versus a year ago.
- Overall capacity utilization increased to 79.6% in February from 79.2% in January. Manufacturing capacity use rose to 78.3% in February from 77.8% in January.





Implications: Today's industrial production report shows that neither the "fiscal cliff" deal at the start of the year nor fears about the federal spending sequester have hurt economic growth. Industrial production rose 0.7% (0.9% including revisions to prior months) and now stands at the highest level since March of 2008, very close to an all-time record high. Manufacturing production rose an even stronger 0.8% (1.1% including revisions to prior months) led by a 3.6% gain in auto production. Companies have regained confidence and are ramping up production again. Production is up 2.5% in the past year but up 4.1% at an annual rate over the past three months. Even more impressive is manufacturing production which is at a 7.7% annual rate in the past three months while only up 2.4% from a year ago. In the past year auto production is up 9.3%, while manufacturing ex-autos is up a slower 1.4%. We expect the gap between those two growth rates to narrow considerably in 2013, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Capacity utilization rose to 79.6% in February, now above the average of 79.2% in the past 20 years, and the highest percent of capacity since March of 2008. Continued gains in production will push capacity use higher, which means companies will have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing they have the ability to make these investments. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, was essentially unchanged at +9.2 in March from +10.0 in February. Once again, more evidence the plow horse economy is starting to trot.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Feb-13	Jan-13	Dec-12	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.7%**	0.0%	0.3%	4.1%	5.2%	2.5%
Manufacturing	**0.8%**	-0.4%	1.4%	7.7%	6.2%	2.4%
Motor Vehicles and Parts	**3.6%**	-4.9%	3.6%	8.9%	13.9%	9.3%
Ex Motor Vehicles and Parts	**0.5%**	0.1%	1.1%	7.0%	5.0%	1.4%
Mining	**-0.3%**	-0.9%	-0.5%	-7.0%	5.3%	3.3%
Utilities	**1.6%**	4.8%	-6.3%	-0.8%	1.6%	5.7%
Business Equipment	**2.5%**	-1.2%	0.5%	7.0%	6.6%	6.6%
Consumer Goods	**0.6%**	0.2%	0.2%	4.3%	4.6%	1.9%
High-Tech Equipment	**0.4%**	-0.3%	-1.6%	-5.8%	2.3%	-1.7%
Total Ex. High-Tech Equipment	**0.7%**	0.1%	0.3%	4.6%	5.3%	2.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**79.6**	79.2	79.3	79.4	79.0	78.9
Manufacturing	**78.3**	77.8	78.2	78.1	77.4	77.4

Source: Federal Reserve Board