First Trust DATAWATCH

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January Industrial Production / Capacity Utilization

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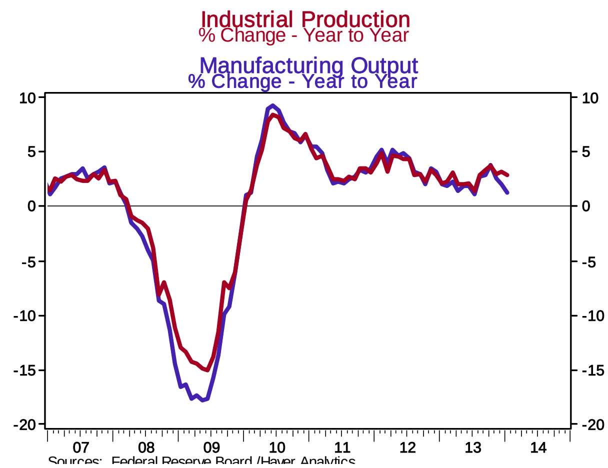
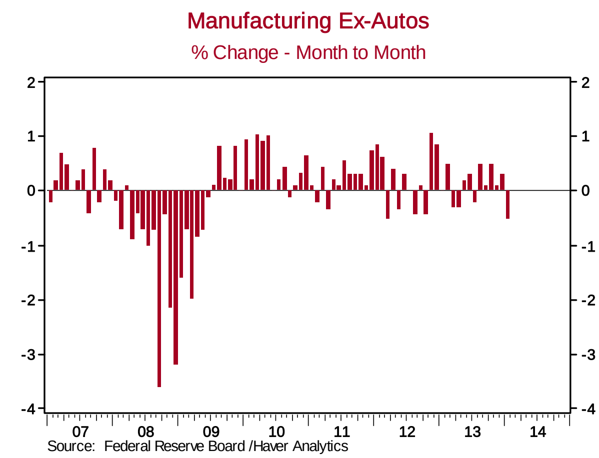
- Industrial production declined 0.3% in January (-0.8% including revisions to prior months), falling short of the consensus expected gain of 0.2%. Production is up 2.9% in the past year.

- Manufacturing, which excludes mining/utilities, fell 0.8% in January (-1.5% with revisions to prior months). Auto production dropped 5.0% in January, while non-auto manufacturing declined 0.5%. Auto production is up 2.8% versus a year ago while non-auto manufacturing is up 1.3%.

- The production of high-tech equipment rose 0.2% in January and is up 6.3% versus a year ago.

- Overall capacity utilization declined to 78.5% in January from 78.9% in December. Manufacturing capacity dropped to 76.0% in January.





Implications: The plow horse was starting to trot in the fall, but even a plow horse has to struggle when hit by a polar vortex and unusually brutal winter weather. Industrial production declined 0.3% in January, the largest drop in nine months. The data clearly show the effects of weather: manufacturing output fell 0.8% while utilities increased 4.1%. Once again, we need to say this is not a negative turning point for the economy. When weather patterns get back to normal, the data will show the plow horse getting back up to pace and she'll probably trot at least briefly to offset recent weakness. We expect continued gains in production as the housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and consumption. Despite the weakness in January, the trend remains OK, with overall production up 2.9% from a year ago. And, even with brutal January weather, capacity utilization was 78.5%, very close to the average of 78.9% over the past twenty years. As a result, further gains in production in the year ahead should push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing that companies have the ability to make these investments. In other news this morning, a modest pick-up in inflation for traded goods. Import prices increased 0.1% in January and a steeper 0.4% excluding petroleum. Export prices increased 0.2%, both including and excluding farm products. Still, all of these measures of trade prices are down from a year ago. We are forecasting rising inflation this year, but nothing that would set off alarm bells at the Federal Reserve.

Industrial Production **Capacity Utilization** *All Data Seasonally Adjusted*	**Jan-14**	**Dec-13**	**Nov-13**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**-0.3%**	0.3%	0.7%	2.4%	4.1%	2.9%
Manufacturing	**-0.8%**	0.3%	0.4%	-0.4%	2.7%	1.6%
Motor Vehicles and Parts	**-5.0%**	0.2%	3.4%	-6.5%	8.3%	2.8%
Ex Motor Vehicles and Parts	**-0.5%**	0.3%	0.1%	-0.4%	2.1%	1.3%
Mining	**-0.8%**	1.7%	0.9%	7.5%	3.5%	6.8%
Utilities	**4.1%**	-1.3%	2.9%	24.5%	18.9%	9.4%
Business Equipment	**-0.1%**	-0.6%	-0.4%	-4.2%	1.6%	2.4%
Consumer Goods	**-0.4%**	0.6%	0.6%	3.4%	5.7%	2.7%
High-Tech Equipment	**0.2%**	-0.3%	0.8%	2.7%	3.0%	6.3%
Total Ex. High-Tech Equipment	**-0.3%**	0.3%	0.7%	2.9%	4.2%	2.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.5**	78.9	78.8	78.7	78.5	78.2
Manufacturing	**76.0**	76.7	76.6	76.4	76.4	76.3

Source: Federal Reserve Board

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