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December Industrial Production / Capacity Utilization

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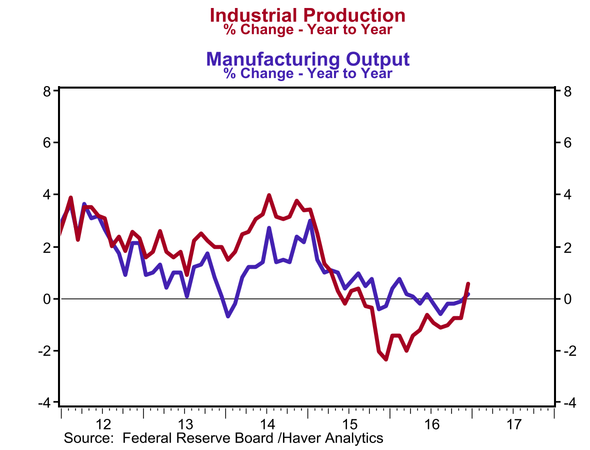
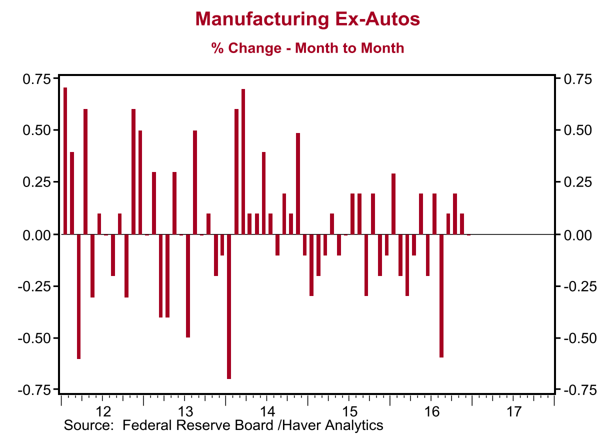
- Industrial production increased 0.8% in December, beating the consensus expected gain of 0.6% (Including revisions to prior months, production increased 0.7%). Utility output rose 6.6%, while mining remained unchanged.
- Manufacturing, which excludes mining/utilities, increased 0.2% in December. Auto production rose 1.8% while non-auto manufacturing was unchanged. Auto production is up 6.6% versus a year ago while non-auto manufacturing is down 0.3%.
- The production of high-tech equipment increased 0.3% in December and is up 3.0% versus a year ago.
- Overall capacity utilization rose to 75.5% in December from 74.9% in November. Manufacturing capacity utilization rose to 74.8% in December from 74.7% in November.





Implications: Industrial production surged in December, posting its largest monthly gain since 2014, completely reversing the November decline. Not surprisingly, the strength in December came from the highly volatile utility and auto sectors, which were also the main culprits behind the November drop. After unseasonably warm weather in November, utility output posted its largest one-month jump since 1989 as demand for home heating and electric power ramped up in response to more normal December conditions. Meanwhile, manufacturing rose 0.2% in December, due entirely to a jump in auto production which rose 1.8% in December and is now up 6.6% over the past year. "Core" industrial production, which is manufacturing excluding autos, remained unchanged in December. Although it's down 0.3% versus a year ago, it's up at a 1.2% annual rate during the past three months, a lagged effect of the rebound in oil prices since earlier this year. The rebound in energy prices is also having a direct effect on mining, which despite remaining unchanged in December is up at a 12% annual rate in the past three months. Further, oil and gas-well drilling posted its seventh consecutive gain in December, jumping 9.4%, and is now up at a massive 150% annual rate in the past three months. Based on other commodity prices, we think oil prices are in the "fair value" range, which should keep mining in recovery after the problems of the past two years. Although weak overseas economies will continue to be a headwind for production, we expect solid growth in the year ahead. In other recent news, the Empire State index, a measure of manufacturing sentiment in New York, fell to +6.5 in January from +7.6 in December, signaling continued improvement in the factory sector, though at a slightly slower pace.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Dec-16	Nov-16	Oct-16	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.8%**	-0.7%	0.2%	1.5%	0.8%	0.6%
Manufacturing	**0.2%**	-0.2%	0.3%	1.2%	0.4%	0.2%
Motor Vehicles and Parts	**1.8%**	-2.0%	0.9%	3.1%	5.5%	6.6%
Ex Motor Vehicles and Parts	**0.0%**	0.1%	0.2%	1.2%	0.0%	-0.3%
Mining	**0.0%**	-0.7%	3.5%	12.0%	6.7%	-2.7%
Utilities	**6.6%**	-4.6%	-2.7%	-4.1%	-1.5%	6.2%
Business Equipment	**0.7%**	-0.6%	0.1%	0.8%	-1.0%	0.8%
Consumer Goods	**1.1%**	-1.0%	-0.2%	-0.4%	0.0%	1.6%
High-Tech Equipment	**0.3%**	-0.7%	0.8%	1.5%	3.3%	3.0%
Total Ex. High-Tech Equipment	**0.9%**	-0.7%	0.2%	1.6%	0.6%	0.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**75.5**	74.9	75.4	75.3	75.4	75.3
Manufacturing	**74.8**	74.7	74.9	74.8	74.8	75.0

Source: Federal Reserve Board