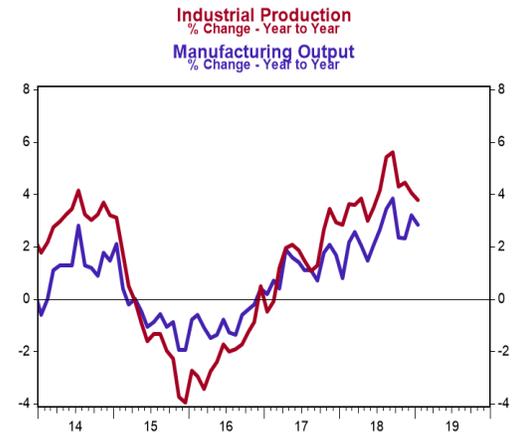


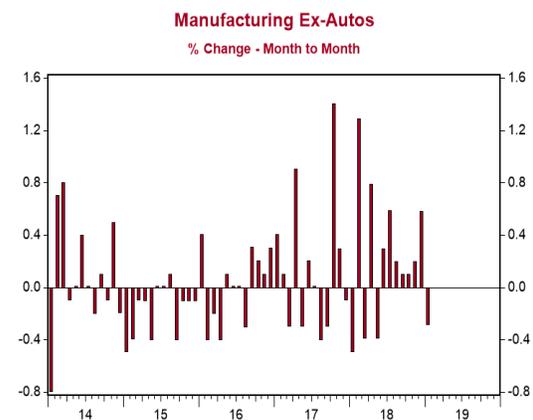
## January Industrial Production / Capacity Utilization

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

- Industrial production declined 0.6% in January (-0.5% including revisions to prior months), lagging the consensus expected gain of 0.1%. Mining output rose 0.1% in January, while utilities rose 0.4%.
- Manufacturing, which excludes mining/utilities, fell 0.9% in January (-0.8% including revisions to prior months). Auto production fell 8.8%, while non-auto manufacturing declined 0.3%. Auto production is down 0.7% versus a year ago, while non-auto manufacturing is up 3.1%.
- The production of high-tech equipment rose 0.1% in January and is up 6.5% versus a year ago.
- Overall capacity utilization fell to 78.2% in January from 78.8% in December. Manufacturing capacity utilization declined to 75.8% in January from 76.5% in December.



Source: Federal Reserve Board/Haver Analytics



Source: Federal Reserve Board/Haver Analytics

**Implications:** Industrial production started 2019 on a disappointing note, falling unexpectedly to post the first decline in eight months. However, there are a couple reasons why you should take today’s report with a grain of salt. First, the details show that most of the decline in the overall index was due to an 8.8% drop in the volatile auto sector, which is now down 0.7% from a year ago. By contrast, non-auto manufacturing declined a more modest 0.3% in January and remains up 3.1% versus a year ago. Second, today’s report on industrial production is in sharp contrast with the [January reading on the ISM manufacturing index](#) from earlier this month, which rebounded on strength in the new orders and production indices, which posted their largest monthly gains since 2014 and 2010, respectively. It is too soon to tell which report will be right, but for the time being any talk of a sharp slowdown in the factory sector is too early and making too much of one month’s data. In the past year, the various capital goods indices continue to show healthy growth with business equipment up 3.8%, machinery up 5.1%, and high-tech equipment up 6.5%. Comparing this with the slower year-over-year growth of 2.4% for nondurable goods and 2.8% for manufacturing as a whole demonstrates that capital goods production remains a valuable source of strength in the sector. In turn, more capital goods should help push productivity growth higher, making it easier for the economy to grow in spite of a tight labor market. Looking outside the manufacturing sector, mining activity grew for the twelfth month in a row in January and is now up 15.3% in the past year. Finally, utilities rose 0.4% in January, rebounding as things returned toward normal after unseasonably warm weather in much of the country reduced demand for heating in December. In other news this morning, the Empire State Index, which measures factory sentiment in the New York region, rebounded to 8.8 in February from 3.9 in January, signaling rising optimism. On the inflation front, import prices declined 0.5% in January, while export prices fell 0.6%. In the past year, import prices are now down 1.7%, while export prices are down 0.2%. Expect these figures to rebound soon in response to the turnaround in oil prices as well as a deal with China on some of our trade issues.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-19	Dec-18	Nov-18	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>-0.6%</b>	0.1%	0.6%	0.4%	2.8%	3.8%
<b>Manufacturing</b>	<b>-0.9%</b>	0.8%	0.3%	0.8%	1.5%	2.8%
<b>Motor Vehicles and Parts</b>	<b>-8.8%</b>	4.3%	0.9%	-15.0%	-1.8%	-0.7%
<b>Ex Motor Vehicles and Parts</b>	<b>-0.3%</b>	0.6%	0.2%	1.9%	1.8%	3.1%
<b>Mining</b>	<b>0.1%</b>	1.5%	1.0%	11.1%	12.5%	15.3%
<b>Utilities</b>	<b>0.4%</b>	-6.8%	2.2%	-16.4%	-2.7%	-5.5%
<b>Business Equipment</b>	<b>-1.5%</b>	1.0%	0.3%	-1.2%	5.1%	3.8%
<b>Consumer Goods</b>	<b>-0.7%</b>	-0.9%	0.3%	-5.1%	0.2%	0.1%
<b>High-Tech Equipment</b>	<b>0.1%</b>	0.3%	0.7%	4.3%	5.1%	6.5%
<b>Total Ex. High-Tech Equipment</b>	<b>-0.5%</b>	0.1%	0.6%	0.4%	2.8%	3.7%
<b>Cap Utilization (Total)</b>	<b>78.2</b>	78.8	78.9	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>75.8</b>	76.5	76.0	78.6	78.6	78.1
				76.1	76.1	75.8

Source: Federal Reserve Board