

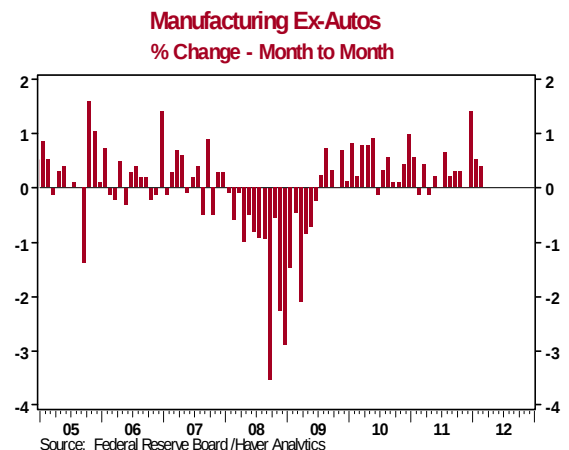
February Industrial Production / Capacity Utilization

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- Industrial production was unchanged in February, but up 0.3% including upward revisions to prior months. The consensus expected a gain of 0.4%. Production is up 4.0% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.2% in February but was up a very strong 0.7% including upward revisions to prior months. Auto production fell 1.2% in February while non-auto manufacturing rose 0.4%. Auto production is up 13.3% versus a year ago while non-auto manufacturing is up 4.6%.
- The production of high-tech equipment fell 0.6% in February, and is down 0.8% versus a year ago.
- Overall capacity utilization ticked down to 78.7% in February from a revised 78.8% in January. Manufacturing capacity use increased to 77.4% in February from 77.3% in January.



Implications: Today's report on the factory sector was very deceptive. Industrial production was unchanged in February, much less than the consensus expected, but prior months were revised up by 0.3%. Strength in the factory sector was obscured by a 1.1% drop in mining output. In addition utility output, because of warmer weather, was unchanged. Taking out utilities and mining leaves just the manufacturing sector, which rose 0.2% in February and 0.7% including upward revisions for prior months. Higher production is making factories use higher levels of capacity. Utilization in manufacturing is now at 77.4%, the highest since March 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.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Feb-12	Jan-12	Dec-11	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.0%	0.4%	0.9%	5.6%	3.8%	4.0%
Manufacturing	0.2%	1.1%	1.5%	12.7%	7.5%	5.2%
Motor Vehicles and Parts	-1.2%	8.6%	3.8%	54.2%	27.2%	13.3%
Ex Motor Vehicles and Parts	0.4%	0.5%	1.4%	9.9%	6.2%	4.6%
Mining	-1.2%	-1.5%	0.8%	-7.4%	0.4%	6.1%
Utilities	0.0%	-2.2%	-3.1%	-19.1%	-14.6%	-5.6%
Business Equipment	0.6%	2.1%	1.4%	17.3%	13.9%	10.8%
Consumer Goods	0.0%	0.4%	0.5%	3.9%	0.4%	1.5%
High-Tech Equipment	-0.6%	-0.1%	1.0%	1.0%	-3.9%	-0.8%
Total Ex. High-Tech Equipment	0.1%	0.3%	1.0%	5.7%	4.1%	4.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.7	78.8	78.5	78.7	78.3	77.6
Manufacturing	77.4	77.3	76.5	77.1	76.3	75.5

Source: Federal Reserve Board