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December Industrial Production / Capacity Utilization

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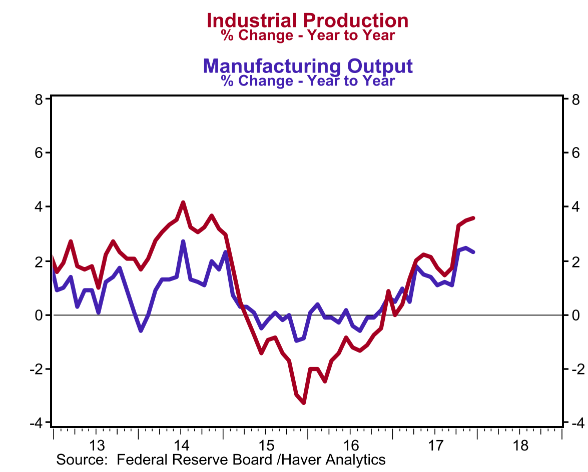
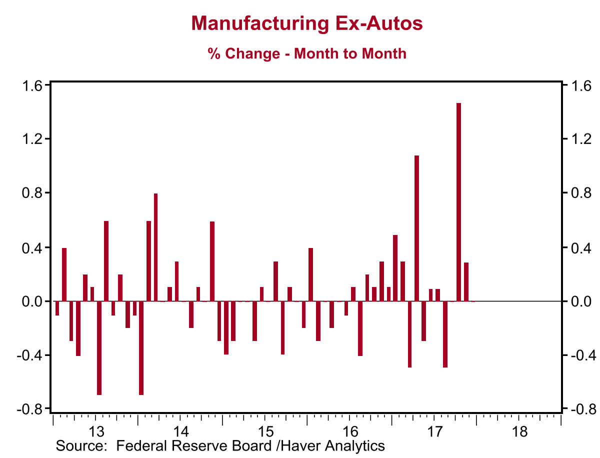
- Industrial production increased 0.9% in December (1.0% including revisions to prior months), beating the consensus expected 0.5%. Utility output rose 5.7%, while mining rose 1.6%.

- Manufacturing, which excludes mining/utilities, increased 0.1% in December (0.2% including revisions to prior months). Auto production rose 2.0% while non-auto manufacturing was unchanged. Auto production is up 0.4% versus a year ago while non-auto manufacturing is up 2.6%.

- The production of high-tech equipment rose 0.4% in December and is up 3.7% versus a year ago.

- Overall capacity utilization increased to 77.9% in December from 77.2% in November. Manufacturing capacity utilization was unchanged in December.





Implications: Industrial production finished 2017 with a bang, beating consensus expectations and posting the largest calendar-year gain since 2010. The headline series rose 0.9% in December and is now up 3.6% in the past year. Further, overall production rebounded 10.7% at an annual rate in Q4 – its fastest quarterly pace since 2009 – after being held back in Q3 by Hurricanes Harvey and Irma. Even though the overall number was strong in December, it is important to note that the details of the report show the strength was primarily due to the volatile utilities and mining components. Manufacturing, which rose 0.1% in December has undergone a major shift. Back in December 2016, automobile manufacturing was up 6% from the prior year while non-auto manufacturing was up 0.2%. Now the leadership has reversed, with auto manufacturing up only 0.4% in the past year while non-auto manufacturing is up 2.6%. This demonstrates that the revival of manufacturing outside the auto sector in the US hasn't been all talk. The biggest source of strength in today's report came from utilities, a volatile category that is very dependent on weather, which rebounded 5.7% in December, after coming in weak in November. Given low January temperatures in much of the country, utilities may have another month of growth in them before reverting to normal. Another bright spot in December came from mining, which rose 1.6% amid broad-based gains in the sector. Notably, after five consecutive months of declines, oil and gas-well drilling rose 0.9% in December. Despite the weakness following the storms, today's gain signals it may have turned the corner. Look for a surge in drilling activity in the months ahead. In other recent news, the Empire State index, a measure of manufacturing sentiment in New York, dropped to 17.7 in January from 19.6 in December. On the housing front, the NAHB index, which measures homebuilder sentiment, fell to a still high 72 in January from 74 in December, signaling continued optimism from developers.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Dec-17	Nov-17	Oct-17	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.9%**	-0.1%	1.8%	10.7%	4.2%	3.6%
Manufacturing	**0.1%**	0.3%	1.5%	7.6%	2.9%	2.3%
Motor Vehicles and Parts	**2.0%**	-0.4%	1.3%	12.1%	6.2%	0.4%
Ex Motor Vehicles and Parts	**0.0%**	0.3%	1.5%	7.3%	2.8%	2.6%
Mining	**1.6%**	0.1%	1.7%	15.0%	7.6%	11.5%
Utilities	**5.7%**	-3.1%	4.0%	28.7%	9.1%	1.8%
Business Equipment	**0.2%**	0.2%	1.2%	6.4%	4.0%	4.2%
Consumer Goods	**1.0%**	-0.8%	1.3%	6.6%	3.1%	1.5%
High-Tech Equipment	**0.4%**	1.6%	2.1%	17.2%	8.3%	3.7%
Total Ex. High-Tech Equipment	**0.9%**	-0.2%	1.8%	10.8%	4.3%	3.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.9**	77.2	77.4	77.5	76.8	76.5
Manufacturing	**76.4**	76.4	76.3	76.4	75.8	75.7

Source: Federal Reserve Board