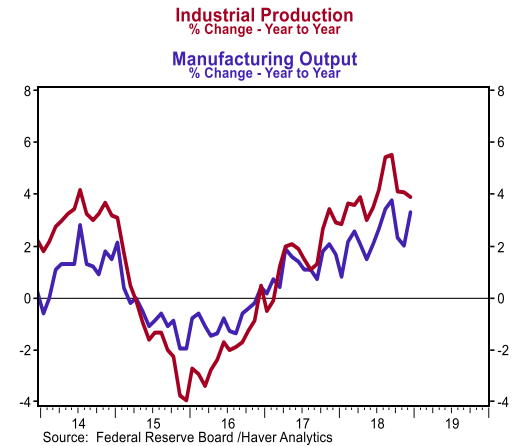


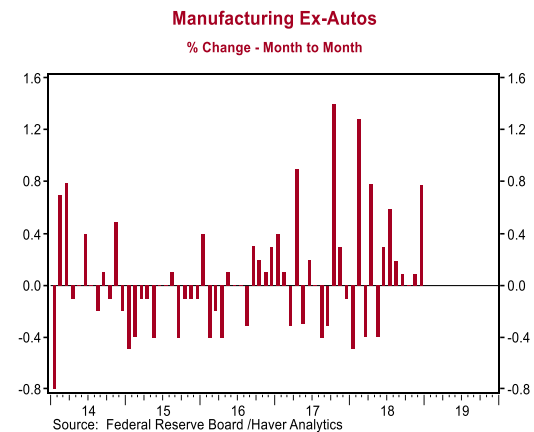
December Industrial Production / Capacity Utilization

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- Industrial production rose 0.3% in December (+0.5% including revisions to prior months), beating the consensus expected gain of 0.2%. Mining output rose 1.5% in December, while utilities declined 6.3%.
- Manufacturing, which excludes mining/utilities, rose 1.1% in December (+1.2% including revisions to prior months). Auto production rose 4.8%, while non-auto manufacturing increased 0.8%. Auto production is up 7.8% versus a year ago, while non-auto manufacturing is up 2.9%.
- The production of high-tech equipment rose 1.1% in December and is up 5.6% versus a year ago.
- Overall capacity utilization rose to 78.7% in December from 78.6% in November. Manufacturing capacity utilization rose to 76.5% in December from 75.8% in November.



Implications: With so many other key reports postponed by the partial government shutdown – retail sales, international trade, housing starts – we are paying even more attention to the other data we do get, like today’s report on industrial production, which showed the manufacturing sector soaring at the finish of 2018. Industrial production rose a solid 0.3% in December, narrowly beating consensus expectations, and is up a robust 3.9% in the past year. But the details of today’s report were much stronger than the headline gain. Manufacturing grew 1.1% in December, the second fastest pace in 2018. Part of the gain in manufacturing was related to a surge in auto production, which rose 4.8%. However, even excluding the volatile auto sector, manufacturing was still up 0.8% for the month. In the past year, the various capital goods indices continue to show healthy growth with business equipment up 5.0%, machinery up 4.9%, and high-tech equipment up 5.6%. Comparing this with the slower year-over-year growth of 1.6% for nondurable goods, or 3.3% 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. Mining also continued its rebound in December, rising 1.5%. The advance was due to gains in oil and gas extraction and nonmetallic mineral mining. Mining is now up 13.4% in the past year. The only notable decline in December came from utilities which fell 6.3%, as unseasonably warm weather in much of the country in the early part of the month reduced demand for heating. In recent employment news, initial jobless claims fell 3,000 last week to 213,000. Meanwhile, continuing claims rose 18,000 to 1.74 million. These figures are consistent with continued robust job gains in January, at least in the private sector. However, the prolonged nature of the government shutdown will mean workers on furlough are treated as unemployed for the month, boosting the unemployment rate for the month and potentially sending the payroll number (temporarily) into negative territory. In other recent news, import prices declined 1.0% in December, while export prices fell 0.6%. In the past year, import prices are now down 0.6%, while export prices are up 1.1%. Finally, on the housing front, the NAHB index, which measures homebuilder sentiment, rose unexpectedly to 58 in January after hitting a three year low of 56 in December. The rebound was primarily attributed to mortgage rates, which have fallen significantly since the November peak, and have helped allay builders’ concerns about affordability for buyers.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-18	Nov-18	Oct-18	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.3%	0.4%	0.2%	3.7%	4.7%	3.9%
Manufacturing	1.1%	0.1%	-0.2%	4.3%	4.3%	3.3%
Motor Vehicles and Parts	4.8%	0.2%	-2.8%	8.1%	11.1%	7.8%
Ex Motor Vehicles and Parts	0.8%	0.1%	0.0%	3.5%	3.5%	2.9%
Mining	1.5%	1.1%	-0.2%	10.4%	12.9%	13.4%
Utilities	-6.3%	1.3%	3.3%	-7.8%	-4.0%	-4.3%
Business Equipment	0.5%	0.3%	0.3%	4.4%	8.0%	5.0%
Consumer Goods	0.0%	-0.7%	0.8%	0.4%	1.9%	1.0%
High-Tech Equipment	1.1%	0.5%	-0.7%	3.5%	6.1%	5.6%
Total Ex. High-Tech Equipment	0.4%	0.4%	0.2%	3.8%	4.7%	3.9%
Cap Utilization (Total)	78.7	78.6	78.4	3-mo Average	6-mo Average	12-mo Average
Manufacturing	76.5	75.8	75.9	78.6	78.4	78.0
				76.1	76.0	75.7

Source: Federal Reserve Board