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Data Watch

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February Industrial Production / Capacity Utilization

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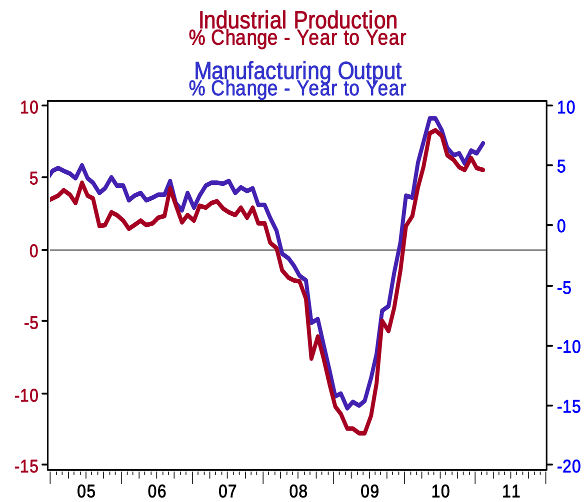
- Due to a 4.5% decline in utilities, industrial production fell 0.1% in February. Including upward revisions to prior months, production increased 0.4%. The consensus expected a gain of 0.6%. Production is up at a 5.5% rate in the past year.

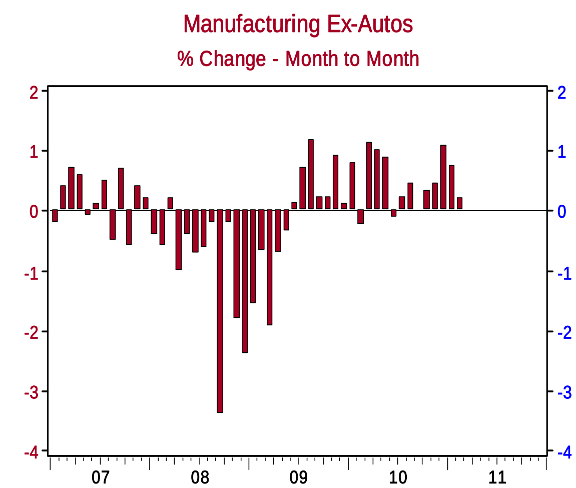
- Manufacturing, which excludes mining/utilities, was up 0.4% in February (1.0% including upward revisions to previous months). The gain in February was led by auto production, which increased 4.2%. Non-auto manufacturing increased 0.2% and was revised upward for prior months. Auto production is up 14.2% versus a year ago while non-auto manufacturing has risen 6.5%.

- The production of high-tech equipment was up 1.2% in February, was revised up substantially for prior months, and is up 16.8% versus a year ago.

- Overall capacity utilization increased to 76.3% in February. Manufacturing capacity use increased to 74.3%, the highest since August 2008.



Sources: Federal Reserve Board /Haver Analytics



Source: Federal Reserve Board /Haver Analytics

Implications: Ignore the headline 0.1% dip in industrial production in February, which was all due to the hyper-volatile utility sector. Manufacturing production was up 0.4% and gained 1% including upward revisions for prior months. Much of the manufacturing gain was due to autos, which surged 4.2% in February after a 4.5% spike in January. After excluding strong auto production, manufacturing still increased 0.2% in February and was upwardly revised for prior months. We believe industrial production is going to continue to move higher and will likely keep being led by business equipment. Inventories are low, corporate profits are approaching an all-time high and cash on the balance sheets of non-financial companies is already at a record high. This is a recipe for higher production and stronger growth ahead. Confirming this outlook, in other news this morning the Philadelphia Fed index, a measure of manufacturing activity in that region, soared to +43.4 in March from +35.9 in February. The consensus had expected a decline. The Philly Fed Index is now the highest since the early 1980's economic boom.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Feb-11**	**Jan-11**	**Dec-10**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**-0.1%**	0.3%	1.3%	6.5%	4.1%	5.5%
Manufacturing	**0.4%**	0.9%	1.1%	10.4%	6.4%	7.3%
Motor Vehicles and Parts	**4.2%**	4.5%	0.3%	42.2%	11.7%	14.2%
Ex Motor Vehicles and Parts	**0.2%**	0.7%	1.1%	8.5%	5.7%	6.5%
Mining	**0.8%**	-0.7%	0.1%	0.8%	2.3%	6.9%
Utilities	**-4.5%**	-2.1%	4.8%	-7.7%	-6.0%	-4.2%
Business Equipment	**0.5%**	1.8%	1.4%	16.1%	14.4%	14.5%
Consumer Goods	**-0.6%**	0.2%	1.6%	4.7%	0.8%	2.9%
High-Tech Equipment	**1.2%**	1.8%	3.3%	28.5%	21.6%	16.8%
Total Ex. High-Tech Equipment	**-0.1%**	0.2%	1.3%	5.7%	3.5%	5.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**76.3**	76.4	76.3	76.3	75.8	74.9
Manufacturing	**74.3**	74.1	73.5	74.0	73.3	72.5

Source: Federal Reserve Board