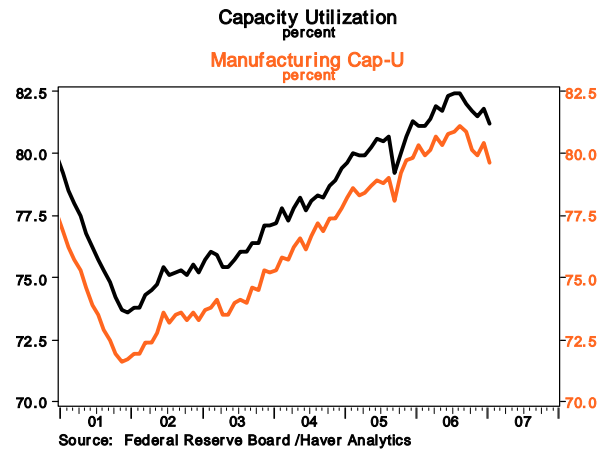
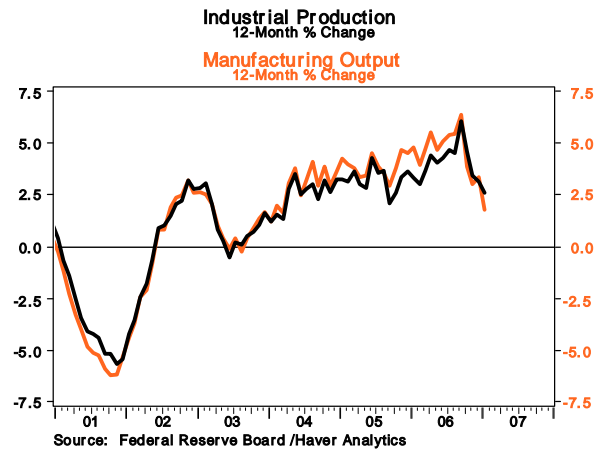


JANUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 0.5% in January, the largest drop since September 2005. The consensus expected industrial production to be unchanged. In the past twelve months, industrial production is up 2.6%.
- Manufacturing production fell 0.7% following an upwardly revised gain of 0.8% in December. Manufacturing is up 1.8% versus a year ago.
- Within manufacturing, motor vehicle production fell 6.0%, the steepest one-month decline since 1998. The production of high-tech equipment continues to stand out, rising 1.7% in January and 26.1% versus a year ago.
- Capacity utilization declined to 81.2%. The consensus forecast was 81.7%. In the manufacturing sector, capacity utilization dropped to 79.6%.

Implications: There's no sugar-coating today's weak report on January industrial production. However, we would not make too much of one month's worth of data. We believe the drop in production is due to an inventory correction which is coming to an end. Yesterday's report on retail sales suggested continued strength in consumer demand. Meanwhile, firms have healthy balance sheets. Some evidence of a rebound can be seen in the Empire State (New York area) Manufacturing Index which increased to 24.4 in February from 9.1 in January. In other news, initial claims for unemployment insurance jumped by 44,000 to 357,000 last week, the highest level since November. We believe this leap was weather-related and will be reversed when new data comes out next week.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-07	Dec-06	Nov-06	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.5%	0.5%	-0.1%	-0.4%	-0.7%	2.6%
Manufacturing	-0.7%	0.8%	0.0%	0.4%	-0.7%	1.8%
Motor Vehicles and Parts	-6.0%	1.8%	3.5%	-4.0%	-7.8%	-7.6%
Ex Motor Vehicles and Parts	-0.3%	0.8%	-0.3%	0.3%	-0.3%	2.5%
Mining	-1.2%	1.5%	-0.2%	0.4%	0.0%	2.3%
Utilities	2.3%	-2.7%	-0.5%	-3.9%	0.0%	10.1%
Business Equipment	-1.7%	2.3%	0.7%	5.4%	3.1%	8.7%
Consumer Goods	-0.2%	0.1%	0.3%	0.7%	0.2%	1.7%
High-Tech Equipment	1.7%	1.4%	0.8%	17.0%	25.2%	26.1%
Total Ex. High-Tech Equipment	-0.6%	0.5%	-0.2%	-1.1%	-1.8%	1.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	81.2	81.8	81.5	81.5	81.8	81.8
Manufacturing	79.6	80.4	79.9	80.0	80.3	80.4

Source: Federal Reserve Board