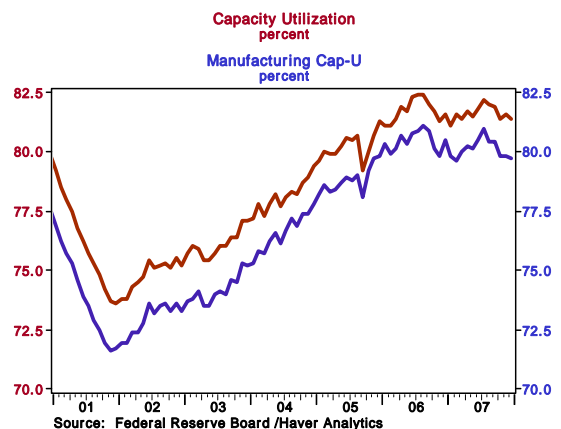
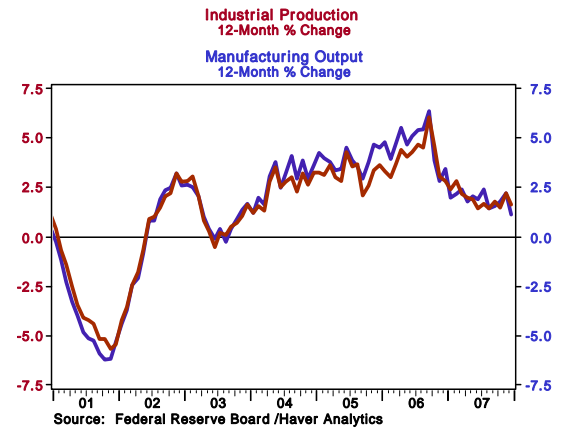


DECEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production was unchanged in December, which was better than the consensus expected decline of 0.1%. Industrial production is up 1.6% versus last year.
- Manufacturing output was unchanged in December and is up 1.1% versus last year. Auto manufacturing declined 0.4% in December and is down 4.1% versus last year. The production of high-tech equipment grew 0.8% in December and is up 16.5% versus last year.
- Capacity utilization declined to 81.4% in December from an upwardly revised 81.6% in November. The consensus expected 81.2%. In the manufacturing sector, capacity utilization ticked down to 79.7% versus 79.8% in the previous month.

Implications: Despite its mediocrity, today's report on industrial output was a relief to those fearing a recession. Rather than dropping like the consensus expected, industrial production was unchanged in December. In addition, output was revised up for October/November, albeit due to mining and utilities rather than manufacturing. Note that the production of business equipment had a second straight strong month, which is not the kind of activity we usually see in recessions or immediately before them. Given the intense problems in home building, we are satisfied by the 1.1% gain in manufacturing output versus last year (1.5% excluding motor vehicles) and expect stronger gains in the year ahead after home building hits bottom later in 2008.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-07	Nov-07	Oct-07	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.0%	0.3%	-0.5%	-0.7%	0.9%	1.6%
Manufacturing	0.0%	0.3%	-0.6%	-1.4%	0.0%	1.1%
Motor Vehicles and Parts	-0.4%	1.1%	-1.6%	-3.6%	-8.7%	-4.1%
Ex Motor Vehicles and Parts	0.0%	0.2%	-0.5%	-1.4%	0.7%	1.5%
Mining	0.1%	1.0%	-0.1%	4.0%	4.6%	0.2%
Utilities	-0.2%	0.0%	0.1%	-0.4%	4.3%	6.9%
Business Equipment	0.9%	0.6%	-0.7%	3.3%	4.7%	2.4%
Consumer Goods	0.1%	0.1%	-0.8%	-2.5%	-0.7%	0.9%
High-Tech Equipment	0.8%	1.6%	1.4%	16.0%	18.0%	16.5%
Total Ex. High-Tech Equipment	-0.1%	0.3%	-0.5%	-1.5%	0.0%	0.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	81.4	81.6	81.4	81.5	81.8	81.6
Manufacturing	79.7	79.8	79.8	79.8	80.2	80.1

Source: Federal Reserve Board

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