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NOVEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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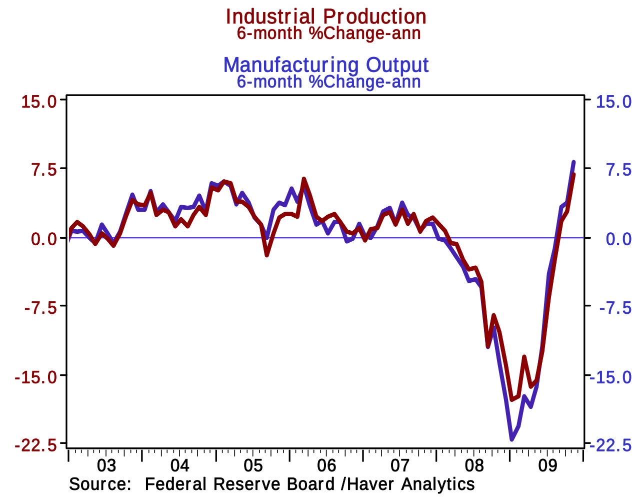
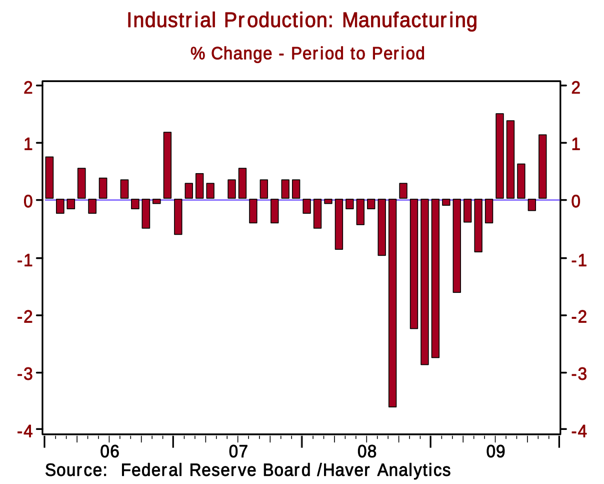
- Industrial production increased 0.8% in November, beating the consensus expected gain of 0.5%. Production is up at a 6.8% annual rate in the past six months.
- Manufacturing output increased 1.1% in November. Motor vehicle/parts production rose 1.9%, while manufacturing ex-autos was up 1.1%.
- The production of high-tech equipment rose 0.4% in November.
- Overall capacity utilization increased to 71.3% in November, beating the consensus expected 71.1%. Manufacturing capacity utilization rose to 68.4%.





Implications: The US manufacturing sector rebounded strongly in November after a slight drop in October, severely undermining the theory that the Summer surge in manufacturing was a temporary positive blip due to cash for clunkers. Manufacturing production increased 1.1% in November and is up at an 8.7% annual rate versus six months ago. This is a clean comparison of manufacturing *before* cash for clunkers to manufacturing *after* clunkers. (And remember, we are supposed to be suffering a clunkers hangover right now.) Taking autos completely out of the picture, manufacturing is up at a still robust 5.6% annual rate in the past six months. We are confident manufacturing production will continue to rise both in and out of the auto sector. The depreciation of the dollar over the past several years has made the US a low cost producer among the world's advanced economies. Meanwhile, auto sales will keep rising and production will rise in tandem with these gains. "Scrappage" rates for autos plus increases in the number of drivers mean that sales need to go up to almost a 16 million annual rate sometime in the next two years. This represents an increase of roughly 45% versus the sales pace of November. In other news this morning, the Empire State index, a measure of manufacturing in New York, came in at 2.6 in December, well below the consensus expected 24.0. However, it's important to note that the index remained above zero for the fifth straight month, signaling expansion.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Nov-09**	**Oct-09**	**Sep-09**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**0.8%**	0.0%	0.6%	5.4%	6.8%	-5.2%
Manufacturing	**1.1%**	-0.2%	0.6%	6.7%	8.7%	-4.4%
Motor Vehicles and Parts	**1.9%**	-1.9%	8.6%	39.3%	73.9%	-6.9%
Ex Motor Vehicles and Parts	**1.1%**	-0.2%	0.3%	4.9%	5.6%	-4.8%
Mining	**2.1%**	-0.2%	-0.1%	7.2%	6.6%	-6.8%
Utilities	**-1.8%**	1.6%	0.3%	0.4%	-1.5%	-5.1%
Business Equipment	**0.5%**	-0.3%	-0.4%	-0.7%	3.6%	-8.1%
Consumer Goods	**0.3%**	0.1%	1.0%	5.8%	6.7%	-1.9%
High-Tech Equipment	**0.4%**	0.3%	-0.8%	-0.2%	6.7%	-4.1%
Total Ex. High-Tech Equipment	**0.8%**	-0.1%	0.6%	5.6%	6.8%	-5.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**71.3**	70.6	70.6	70.8	70.0	70.1
Manufacturing	**68.4**	67.6	67.6	67.9	67.0	66.9

Source: Federal Reserve Board