

JANUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Industrial production increased 0.9% in January, beating the consensus expected gain of 0.7%. Production is up at an 8.9% annual rate in the past six months.
- Manufacturing output was up 0.9% in January and up 0.8% excluding autos. In the past six months, total manufacturing is up at a 7.5% annual rate while manufacturing ex-autos is up at a 6.0% rate.
- The production of high-tech equipment increased 1.9% in January and, as usual, was revised up for previous months.
- Overall capacity utilization increased to 72.6% in January, exactly as the consensus expected. Manufacturing capacity utilization rose to 69.2%.



Implications: The manufacturing sector is at the heart of the V-shaped economic recovery. After a weather-related dip in December, we said last month to expect a clear rebound in January and that's exactly what we got, with manufacturing surging 0.9%. Auto production was particularly strong, spiking up 5%, but even excluding autos manufacturing was up 0.8%. Although another weather-related dip in February may be in the cards, we anticipate another quick rebound and continued strength in the year ahead. The inventory-to-sales ratio at businesses across the country has plummeted in the past year and may soon be at an all-time low. Meanwhile, inventories at car dealerships are already too low given the pace of sales and sales are likely to rise this year. That translates into continued increases in auto production. In other recent news, the Empire State Index, a measure of manufacturing in New York, jumped to 24.9 in February from 15.9 in January. In particular, the sub-index for employment was in positive territory for the fourth time in five months. As usual, better economic news will soon translate into a better job market.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-10	Dec-09	Nov-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.9%	0.7%	0.6%	9.2%	8.9%	1.0%
Manufacturing	0.9%	0.0%	0.9%	7.9%	7.5%	2.1%
Motor Vehicles and Parts	5.0%	-0.4%	2.2%	30.3%	38.1%	40.2%
Ex Motor Vehicles and Parts	0.8%	-0.1%	0.9%	6.5%	6.0%	0.1%
Mining	0.7%	-0.1%	2.1%	11.2%	9.2%	-3.3%
Utilities	0.7%	6.3%	-3.0%	16.3%	16.4%	-0.5%
Business Equipment	1.0%	1.3%	-0.3%	8.3%	7.8%	-3.7%
Consumer Goods	1.1%	0.7%	-0.3%	6.1%	9.5%	3.2%
High-Tech Equipment	1.9%	1.2%	0.8%	16.9%	10.9%	6.0%
Total Ex. High-Tech Equipment	0.8%	0.6%	0.6%	8.7%	8.6%	0.7%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	72.6	71.9	71.3	71.9	71.2	70.2
Manufacturing	69.2	68.4	68.4	68.7	68.1	67.0

Source: Federal Reserve Board

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.