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Data Watch

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JANUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

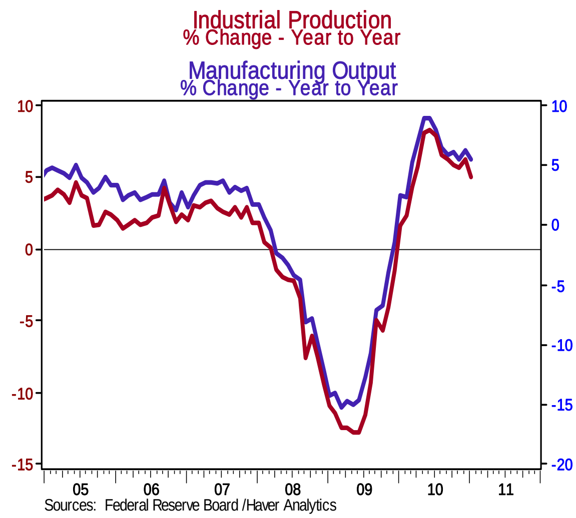
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Due to a 0.7% decline in mining and a 1.6% drop in utilities, industrial production fell 0.1% in January. Including upward revisions to prior months, production increased 0.2%. The consensus expected a gain of 0.5%. Production is up at a 5.1% annual rate in the past year.

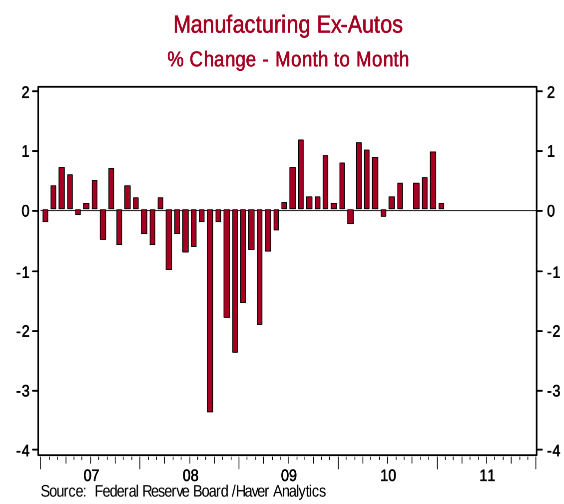
- Manufacturing, which excludes mining/utilities, was up 0.3% in January (+0.8% including upward revisions to previous months). The gain in January was led by auto production, which increased 3.2%. Non-auto manufacturing increased 0.1% and was revised upward for prior months. Auto production is up 5.4% versus a year ago while non-auto manufacturing has risen up 5.5%.

- The production of high-tech equipment was up 1.1% in January, was revised up for prior months, and is up 13.7% versus a year ago.

- Overall capacity utilization slipped to 76.1% in January. Manufacturing capacity use increased to 73.7%, the highest since August 2008.



Implications: Today's headline decline of 0.1% for industrial production is not something to worry about. The fall was largely due to a decline in mining (which is normally volatile) and utilities (January was not as unusually cold as December). Including revisions to prior months, industrial production was up 0.2%. Manufacturing is still a bright spot, expanding for the 7th consecutive month at a healthy 0.3% pace in January (+0.8% including upward revisions to prior months). Auto manufacturing surged and should continue to add to production growth in the coming year as autos sales rise. Industrial production is going to continue to move higher and will likely keep being led by business equipment. Corporate profits are approaching a new record high and cash on the balance sheets of non-financial companies – earning nearly zero percent interest – had already reached a record high. Now, finally, Bloomberg is reporting that S&P 500 companies are starting to reduce their cash hordes and increase capital spending more rapidly. It makes sense that these larger companies take the lead given that they have access to the capital markets (through bond sales) and are better able to get a bank loan when they need one. Commercial and industrial lending is now up three straight months, a far cry from the 20% year-over-year declines of early 2010.



Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Jan-11	Dec-10	Nov-10	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.1%**	1.2%	0.3%	5.7%	3.5%	5.1%
Manufacturing	**0.3%**	0.8%	0.3%	6.2%	4.4%	6.0%
Motor Vehicles and Parts	**3.2%**	0.1%	-4.8%	-6.4%	-12.0%	5.4%
Ex Motor Vehicles and Parts	**0.1%**	1.0%	0.5%	6.7%	5.1%	5.5%
Mining	**-0.7%**	0.5%	-1.0%	-4.5%	5.2%	7.5%
Utilities	**-1.5%**	4.1%	2.0%	19.7%	-0.8%	0.1%
Business Equipment	**0.9%**	1.0%	0.4%	9.9%	9.3%	11.4%
Consumer Goods	**0.1%**	1.1%	-0.2%	3.8%	0.2%	2.2%
High-Tech Equipment	**1.1%**	2.1%	1.4%	20.3%	11.2%	13.7%
Total Ex. High-Tech Equipment	**-0.1%**	1.2%	0.2%	5.3%	3.3%	4.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**76.1**	76.2	75.4	75.9	75.5	74.6
Manufacturing	**73.7**	73.5	72.9	73.4	72.9	72.1

Source: Federal Reserve Board