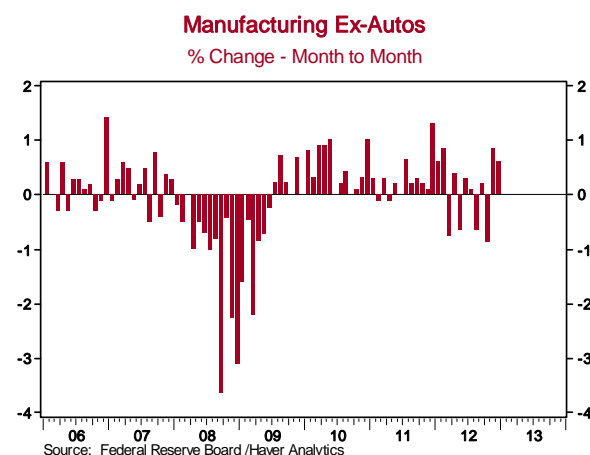
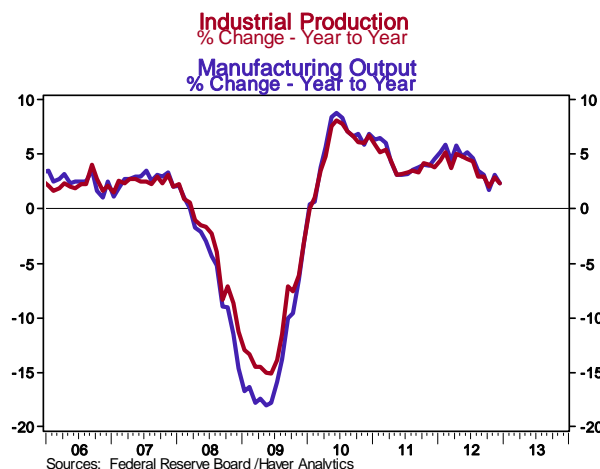


December Industrial Production / Capacity Utilization

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- Industrial production rose 0.3% in December, matching consensus expectations. Production is up 2.3% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.8% in December. Auto production increased 2.6% while non-auto manufacturing rose 0.6%. Auto production is up 17.2% versus a year ago while non-auto manufacturing is up 1.2%.
- The production of high-tech equipment increased 0.4% in December, but is down 2.0% versus a year ago.
- Overall capacity utilization moved up to 78.8% in December from 78.7% in November. Manufacturing capacity use rose to 77.4% in December from 76.9% in November.

Implications: The factory sector finished 2012 on a high note. Although overall output increased 0.3% in December, exactly as the consensus expected, production was revised up for prior months and the gain in December came despite a 4.7% drop in utility output. Manufacturing, which excludes utilities and mining, grew 0.8%, beating the consensus expected 0.5%. The gain in manufacturing was led by a 2.6% increase in auto production, but even manufacturing ex-autos was up a robust 0.6%. We expect production to continue on an upward trend in 2013. However, in the past year auto production is up 17.2% while manufacturing ex-autos is up 1.2%. We expect the gap between those two growth rates to narrow considerably in 2013, with slower growth in autos and faster growth elsewhere in manufacturing. Capacity utilization rose to 78.8% in December, only slightly below the average of 79.2% in the past 20 years. Continued gains in production will push capacity use higher, which means companies will have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments. In other news this morning, the NAHB index, which tracks confidence among home builders, was unchanged in January at 47. This is below the consensus expected 48 but still at a 6-year high. Foot traffic from prospective buyers was up slightly, but expectations of future home sales was down slightly. We expect builders to be pleasantly surprised over the next several months at how well sales hold up, leading to higher builder confidence in the months ahead.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-12	Nov-12	Oct-12	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.3%	1.0%	-0.3%	3.8%	1.7%	2.3%
Manufacturing	0.8%	1.3%	-0.9%	5.1%	1.7%	2.7%
Motor Vehicles and Parts	2.6%	5.7%	0.0%	38.6%	9.4%	17.2%
Ex Motor Vehicles and Parts	0.6%	0.9%	-0.9%	2.6%	0.6%	1.2%
Mining	0.7%	0.3%	1.2%	9.1%	8.6%	3.3%
Utilities	-4.7%	0.2%	1.3%	-12.6%	-6.9%	-0.2%
Business Equipment	1.3%	1.9%	-1.3%	7.9%	2.3%	8.7%
Consumer Goods	0.0%	0.9%	-0.8%	0.4%	0.0%	1.0%
High-Tech Equipment	0.4%	0.3%	1.4%	8.5%	-4.2%	-2.0%
Total Ex. High-Tech Equipment	0.3%	1.0%	-0.4%	3.8%	1.9%	2.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.8	78.7	78.0	78.5	78.6	78.7
Manufacturing	77.4	76.9	76.0	76.8	76.9	77.2

Source: Federal Reserve Board