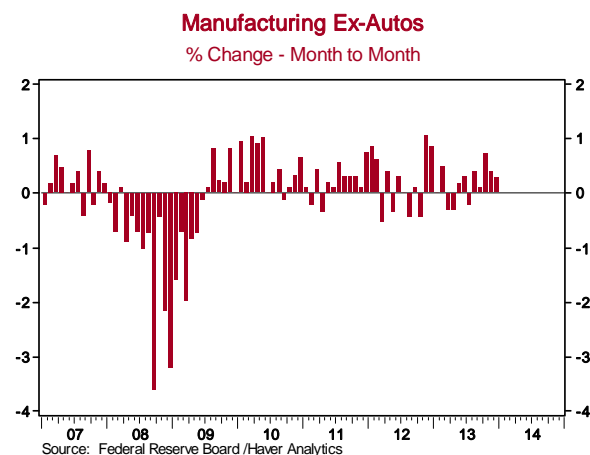
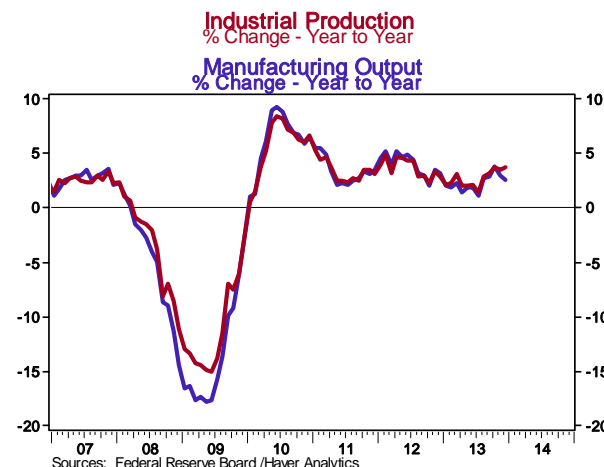


## December Industrial Production / Capacity Utilization

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- Industrial production increased 0.3% in December, matching consensus expectations, but was up 0.5% including revisions to prior months. Production is up 3.7% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.4% in December (+0.6% including revisions to prior months). Auto production rose 1.6% in December, while non-auto manufacturing was up 0.3%. Auto production is up 7.2% versus a year ago while non-auto manufacturing is up 2.2%.
- The production of high-tech equipment rose 1.7% in December, and is up 9.9% versus a year ago.
- Overall capacity utilization rose to 79.2% in December from 79.1% in November. Manufacturing capacity increased to 77.2% in December.

**Implications:** The plow horse economy is starting to trot. Another strong report today on industrial production, which reached a new all-time high in December. Production rose 0.3% for the month and an even stronger 0.5% including revisions to prior months. Taking out mining and utilities gives us manufacturing, which was up 0.4% in December and up 2.8% in the past year. Auto production was up 1.6% in December, but even non-auto manufacturing was up 0.3%. We expect continued gains in production as the housing recovery is still young and demand for autos and other durables remains strong. Over the past year, production in the auto sector has expanded by 7.2%. Excluding autos, manufacturing output is up 2.2% in the past year and 6.0% at an annual rate in the past three months. We expect the growth gap between auto and non-auto manufacturing to narrow substantially in the year ahead, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Capacity utilization rose to 79.2% in December. This is a new high for the recovery and above the average of 78.9% in the past 20 years. As a result, further gains in production in the year ahead should push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing companies have the ability to make these investments.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-13	Nov-13	Oct-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.3%</b>	1.0%	0.3%	7.0%	5.3%	3.7%
<b>Manufacturing</b>	<b>0.4%</b>	0.7%	0.6%	7.2%	4.2%	2.8%
<b>Motor Vehicles and Parts</b>	<b>1.6%</b>	3.6%	-1.4%	16.4%	11.3%	7.2%
<b>Ex Motor Vehicles and Parts</b>	<b>0.3%</b>	0.4%	0.7%	6.0%	3.6%	2.2%
<b>Mining</b>	<b>0.7%</b>	1.8%	-1.5%	4.3%	8.1%	6.6%
<b>Utilities</b>	<b>-1.4%</b>	3.0%	1.0%	10.3%	9.6%	7.6%
<b>Business Equipment</b>	<b>-0.6%</b>	-0.3%	0.3%	-2.3%	1.2%	1.8%
<b>Consumer Goods</b>	<b>0.5%</b>	1.2%	0.3%	8.3%	4.7%	3.7%
<b>High-Tech Equipment</b>	<b>1.7%</b>	1.7%	1.6%	22.1%	11.4%	9.9%
<b>Total Ex. High-Tech Equipment</b>	<b>0.2%</b>	1.1%	0.2%	6.3%	5.0%	3.4%
				<b>3-mo Average</b>	<b>6-mo Average</b>	<b>12-mo Average</b>
<b>Cap Utilization (Total)</b>	<b>79.2</b>	79.1	78.4	78.9	78.5	78.2
<b>Manufacturing</b>	<b>77.2</b>	76.9	76.6	76.9	76.5	76.3

Source: Federal Reserve Board