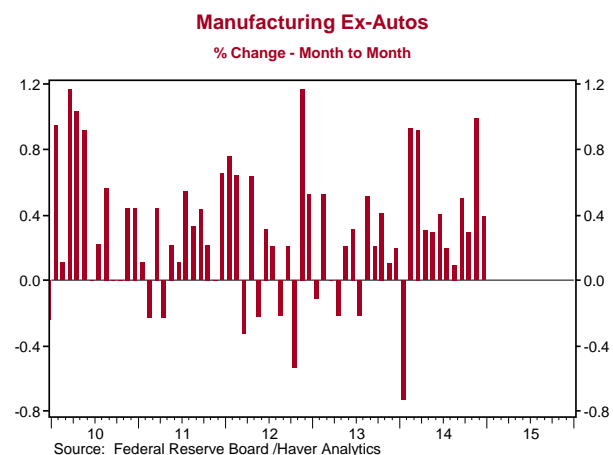
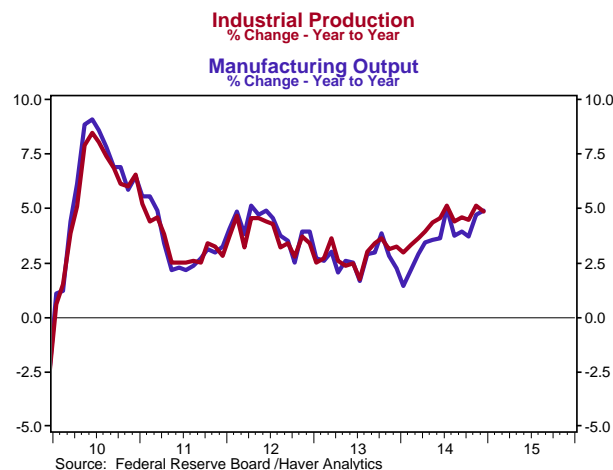


## December Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist  
Robert Stein, CFA – Dep. Chief Economist  
Strider Elass – Economist

- Industrial production declined 0.1% in December, -0.2% including revisions to prior months. The consensus expected a decline of 0.1%. Production is up 4.8% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.3% in December. Auto production slipped 0.9% in December while non-auto manufacturing rose 0.4%. Auto production is up 7.0% versus a year ago while non-auto manufacturing is up 4.7%.
- The production of high-tech equipment increased 0.1% in December and is up 6.3% versus a year ago.
- Overall capacity utilization fell to 79.7% in December from 80.0% in November. Manufacturing capacity utilization was unchanged at 78.4% in December.

**Implications:** Don't judge a book by its cover. Although industrial production dropped 0.1%, the underlying details of the report were very good. Industrial production is divided into three major parts: manufacturing (which includes autos), utilities, and mining (which includes oil and gas production activities). Today's data was fascinating. Utility output fell 7.4% as an unusually mild December in much of the country reduced demand for heating. Mining was up 2.3%, with strength in oil and gas extraction offsetting declines in drilling and well-servicing activity – plummeting oil prices are roiling this market. And, while overall manufacturing rose 0.3%, auto production fell 0.9%. If there were a "core" industrial production statistic it would be "manufacturing, excluding autos," which rose a strong 0.4% in December and is up 4.7% versus a year ago. In the past 17 months, this key measure has only declined once, and that was last January during the worst of an unusually brutal winter. We expect continued growth in the industrial sector in the year ahead. The housing recovery has further to go and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like machines and appliances. Capacity utilization declined to 79.7% in December from 80.0% in November, but still remains higher than the average of 78.7% in the past twenty years. In the past year, capacity utilization is up 1.2 percentage points and further gains in production in the year ahead will push capacity use even higher, which means companies will have an increasing incentive to build out plant and equipment.



<b>Industrial Production</b> <b>Capacity Utilization</b> <i>All Data Seasonally Adjusted</i>	<b>Dec-14</b>	<b>Nov-14</b>	<b>Oct-14</b>	<b>3-mo % Ch</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Industrial Production</b>	<b>-0.1%</b>	1.3%	0.0%	4.6%	4.7%	4.8%
<b>Manufacturing</b>	<b>0.3%</b>	1.3%	0.3%	7.6%	5.6%	5.1%
<b>Motor Vehicles and Parts</b>	<b>-0.9%</b>	5.5%	-0.4%	17.3%	7.4%	7.0%
<b>Ex Motor Vehicles and Parts</b>	<b>0.4%</b>	1.0%	0.3%	7.0%	5.1%	4.7%
<b>Mining</b>	<b>2.3%</b>	-0.3%	-1.3%	2.7%	6.2%	11.1%
<b>Utilities</b>	<b>-7.4%</b>	4.2%	0.5%	-11.3%	-2.2%	-5.4%
<b>Business Equipment</b>	<b>0.1%</b>	1.3%	1.0%	10.0%	6.5%	7.5%
<b>Consumer Goods</b>	<b>-1.2%</b>	2.6%	-0.1%	5.0%	3.5%	2.0%
<b>High-Tech Equipment</b>	<b>0.1%</b>	0.0%	0.3%	1.7%	0.4%	6.3%
<b>Total Ex. High-Tech Equipment</b>	<b>-0.1%</b>	1.4%	0.0%	5.2%	5.0%	4.8%
<b>Cap Utilization (Total)</b>	<b>79.7</b>	80.0	79.2	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>78.4</b>	78.4	77.5	79.6	79.5	79.2
				78.1	77.8	77.2

Source: Federal Reserve Board