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January Industrial Production / Capacity Utilization

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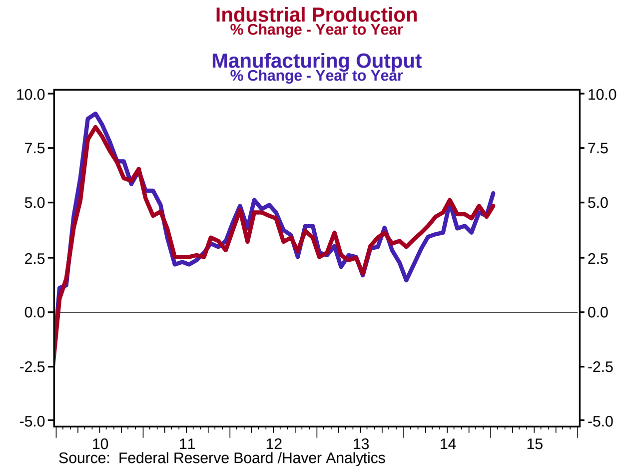
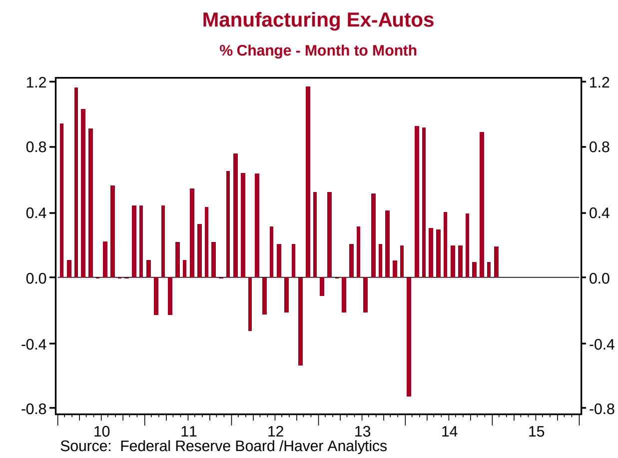
- Industrial production rose 0.2% in January, coming in below the consensus expected increase of 0.4%. Production is up 4.8% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.2% in January. Auto production declined 0.5% in January while non-auto manufacturing rose 0.2%. Auto production is up 13.3% versus a year ago while non-auto manufacturing is up 5.1%.
- The production of high-tech equipment increased 1.2% in January and is up 7% versus a year ago.
- Overall capacity utilization remained unchanged at 79.4% in January from December. Manufacturing capacity utilization increased to 78.1% in January.





Implications: We hate to sound like a broken record, but today's news on the industrial sector in January was another Plow Horse report. Although growth in industrial production came in slightly slower than the consensus expected 0.4%, the underlying details of the report continue to show bright spots. Industrial production is divided into three major parts: manufacturing (which includes autos), utilities, and mining (which includes oil and gas production activities). The least volatile portion of the whole report is manufacturing excluding autos, which rose 0.2% in January – the twelfth consecutive monthly gain – and is up 5.1% from a year ago. The gain in manufacturing ex-autos was spurred by a 1.2% increase in production of high-tech equipment. The rest of the report was scattershot. Autos posted their second straight monthly decline, falling -0.5%, but are still up 13.3% in the past year. Utilities posted a healthy gain of 2.2%, as temperatures dipped in January, boosting demand for heating after an unusually mild December. Mining dropped 1% as a 10% decline in oil and gas well drilling more than offset gains in most other mining activities. We expect continued growth in industrial production in the year ahead despite any downward pressure from the energy sector. Companies are sitting on huge cash reserves and profits are at record highs. In addition, at 79.4%, capacity utilization remains higher than the average of 78.6% in the past twenty years, so further gains in production will push capacity use higher, giving companies an incentive to build out plant and equipment. In other recent manufacturing news, the Empire State index, a measure of manufacturing sentiment in New York, came in at a moderate 7.8 in February versus 10.0 in January.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Jan-15**	**Dec-14**	**Nov-14**	**3-mo % Ch** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Industrial Production	**0.2%**	-0.3%	1.1%	4.3%	3.3%	4.8%
Manufacturing	**0.2%**	0.0%	1.3%	6.0%	3.1%	6.0%
Motor Vehicles and Parts	**-0.5%**	-1.3%	6.1%	17.4%	-11.0%	13.3%
Ex Motor Vehicles and Parts	**0.2%**	0.1%	0.9%	4.9%	3.9%	5.1%
Mining	**-1.0%**	2.0%	-0.4%	2.7%	3.1%	8.5%
Utilities	**2.2%**	-6.9%	3.6%	-5.4%	8.3%	-6.6%
Business Equipment	**0.8%**	-1.1%	1.4%	4.5%	3.2%	7.3%
Consumer Goods	**0.2%**	-0.8%	2.2%	6.3%	2.3%	2.9%
High-Tech Equipment	**1.2%**	0.1%	-0.3%	4.0%	2.3%	7.0%
Total Ex. High-Tech Equipment	**0.1%**	-0.3%	1.2%	4.0%	3.4%	4.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**79.4**	79.4	79.8	79.5	79.4	79.2
Manufacturing	**78.1**	78.0	78.2	78.1	77.8	77.4

Source: Federal Reserve Board