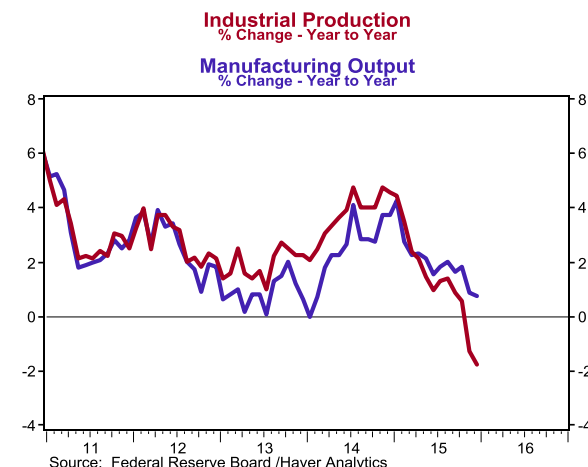


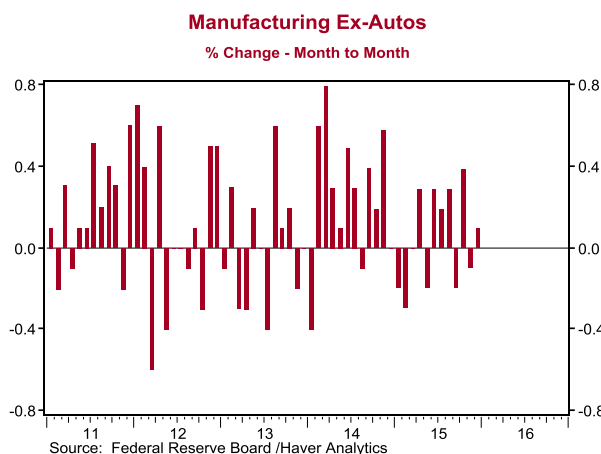
December Industrial Production / Capacity Utilization

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- Industrial production declined 0.4% in December, coming in below the consensus expected decline of 0.2%. Including revisions to prior months, production declined 0.5% and is down 1.8% in the past year. Utility output declined 2.0% in December, while mining declined 0.8%.
- Manufacturing, which excludes mining/utilities, declined 0.1% in December. Auto production declined 1.7% while non-auto manufacturing increased 0.1%. Auto production is up 3.7% versus a year ago while non-auto manufacturing is up 0.6%.
- The production of high-tech equipment increased 1.4% in December and is up 1.7% versus a year ago.
- Overall capacity utilization fell to 76.5% in December from 76.9% in November. Manufacturing capacity utilization slipped to 76.0% in December from 76.1% in November.



Implications: Industrial production continued to tumble in December, falling for a third straight month and posting a below-consensus decline of 0.4% to close out 2015. However, as we have seen with declines in recent months, the major factor that held back the December report was weakness in both utilities and mining, neither of which will stay persistently weak in the years ahead. Utility output dropped 2% in December, reflecting unseasonably warm winter weather caused by the El Niño effect in the lower 48 states. In fact, this December was the warmest for the most people on record, going back to 1949. Meanwhile, a large drop in the extraction of coal, paired with consistent declines in oil prices, caused mining output to drop 0.8% in December. However, declines in drilling and extraction shouldn't last much longer. Based on other commodity prices, oil prices should average at higher levels over the next several years. The bright spot in today's report was the production of high-tech equipment, which increased 1.4% in December and is up at a 9.3% annual rate in the past three months, signaling a recent acceleration in demand for productivity enhancing capital goods made in the U.S. Although manufacturing production slipped 0.1% in December, it was all due to the volatile auto sector, which fell 1.7%. We like to look at manufacturing ex-autos as a kind of "core" reading on the industrial sector, and that was up 0.1% in December. In other words, no sign of recession. In fact, manufacturing ex-autos has been accelerating lately, up at a 1.5% annual rate in the past three months versus a 0.6% gain the past year. Although we don't expect production to boom any time soon – a stronger dollar and weak overseas economies will continue to be a headwind – we do expect a gradual pick-up in activity in 2016. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, came in at a surprisingly low -19.4 in January versus -4.6 in December. But as we have noted with the ISM surveys and as recently as today's [report on producer prices](#), it is important to remember that manufacturing is smaller contributor to growth than the service sector, and a slowdown in manufacturing activity is not the sign of looming recession.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-15	Nov-15	Oct-15	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.4%	-0.9%	-0.2%	-5.8%	-1.3%	-1.8%
Manufacturing	-0.1%	-0.1%	0.4%	0.8%	1.7%	0.8%
Motor Vehicles and Parts	-1.7%	-1.5%	1.2%	-8.0%	6.7%	3.7%
Ex Motor Vehicles and Parts	0.1%	-0.1%	0.4%	1.5%	1.4%	0.6%
Mining	-0.8%	-2.1%	-2.0%	-18.0%	-8.5%	-11.3%
Utilities	-2.0%	-4.9%	-1.7%	-29.9%	-13.3%	-6.8%
Business Equipment	0.1%	-0.9%	-0.5%	-5.1%	-2.4%	-0.8%
Consumer Goods	-0.8%	-0.6%	-0.2%	-5.8%	0.8%	0.3%
High-Tech Equipment	1.4%	-0.5%	1.3%	9.3%	5.2%	1.7%
Total Ex. High-Tech Equipment	-0.5%	-0.8%	-0.3%	-6.2%	-1.5%	-1.9%
Cap Utilization (Total)	76.5	76.9	77.7	3-mo Average	6-mo Average	12-mo Average
Manufacturing	76.0	76.1	76.3	77.0	77.5	77.8
				76.1	76.2	76.1

Source: Federal Reserve Board