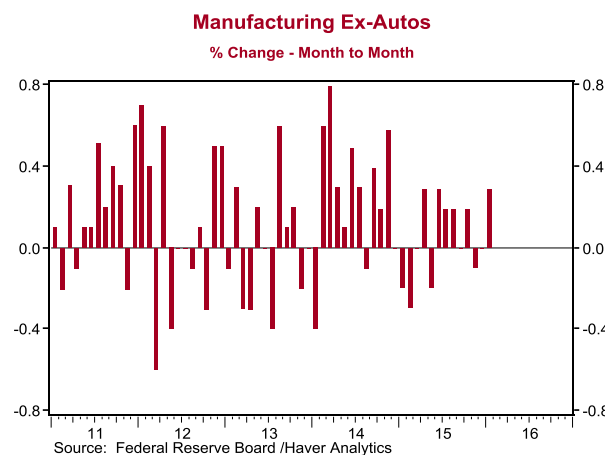
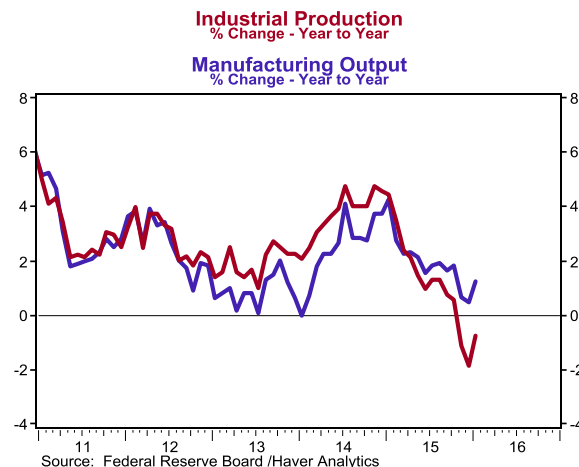


January Industrial Production / Capacity Utilization

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- Industrial production rose 0.9% in January, coming in well above the consensus expected increase of 0.4%. Including revisions to prior months, production rose 0.8%. Utility output increased 5.4% in January, while mining was unchanged.
- Manufacturing, which excludes mining/utilities, increased 0.5% in January (+0.3% including revisions to prior months). Auto production increased 2.8% while non-auto manufacturing increased 0.3%. Auto production is up 6.2% versus a year ago while non-auto manufacturing is up 0.9%.
- The production of high-tech equipment increased 0.6% in January and is up 1.6% versus a year ago.
- Overall capacity utilization rose to 77.1% in January from 76.4% in December. Manufacturing capacity utilization increased to 76.1% in January from 75.8% in December.

Implications: After three consecutive monthly declines, industrial production surged in January, coming in well above consensus expectations, and posting the largest monthly gain since July. Industrial production grew 0.9% in January, and despite growth being held back slightly by a storm late in the month, the strength in today's report was broad based. This was primarily due to boosts from utilities and auto production as well as a breather from the consistent declines in the mining sector. Utility output grew 5.4% in January, as the El Niño effect faded and a return to more normal and colder temperatures led to increased demand for home heating. Meanwhile, mining output was unchanged in January after four months of declines, as pickups in oil and gas extraction and metal ore mining offset a 5.9% decline in drilling activity. While mining (and energy in general) have been a drag on production over the past year, we expect activity to stabilize in the months ahead. Based on other commodity prices, oil prices should average at higher levels over the next several years. Another bright spot in today's report was auto production, which increased 2.8% in January and is up 6.2% in the past year, pointing to continued strength in vehicle sales. This was reflected in manufacturing production, which rose 0.5% in January. However, even looking at manufacturing ex-autos, which we use as a kind of "core" reading on the industrial sector, production was still up 0.3% in January. In other words, no sign of recession. Finally, capacity utilization ticked up for both the headline series and manufacturing itself, coming in at 77.1 and 76.1, respectively, in January versus 76.4 and 75.8 in December. Although we don't expect production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect a gradual pick-up in activity in 2016. In other recent news, the Empire State index, a measure of manufacturing sentiment in New York, came in below consensus at -16.6 in February, though up slightly from January's reading of -19.4, signaling continued contraction but at a slower pace than in recent months.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-16	Dec-15	Nov-15	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.9%	-0.7%	-0.8%	-2.2%	-1.3%	-0.7%
Manufacturing	0.5%	-0.2%	-0.3%	0.0%	0.2%	1.2%
Motor Vehicles and Parts	2.8%	-2.5%	-1.1%	-3.6%	-9.3%	6.2%
Ex Motor Vehicles and Parts	0.3%	0.0%	-0.1%	0.8%	1.2%	0.9%
Mining	0.0%	-2.0%	-1.4%	-12.7%	-10.7%	-9.8%
Utilities	5.4%	-2.8%	-3.7%	-5.3%	0.0%	-2.8%
Business Equipment	0.3%	-0.8%	-1.3%	-6.9%	-3.9%	-1.4%
Consumer Goods	1.6%	-0.8%	-0.7%	0.8%	-0.2%	1.3%
High-Tech Equipment	0.6%	0.9%	-1.6%	-0.4%	4.8%	1.6%
Total Ex. High-Tech Equipment	0.9%	-0.7%	-0.7%	-1.9%	-1.3%	-0.7%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.1	76.4	77.0	76.8	77.3	77.6
Manufacturing	76.1	75.8	76.0	76.0	76.1	76.0

Source: Federal Reserve Board