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January Industrial Production / Capacity Utilization

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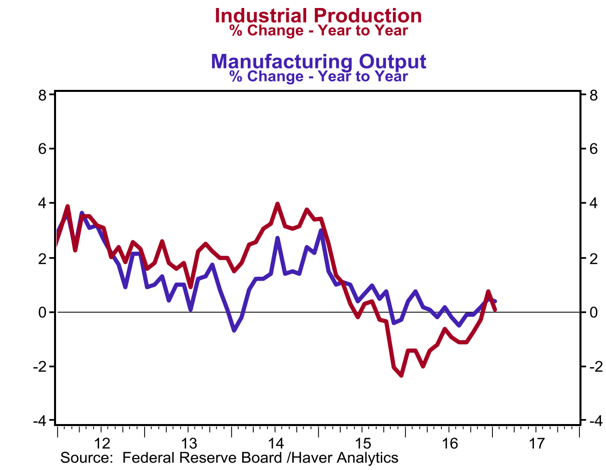
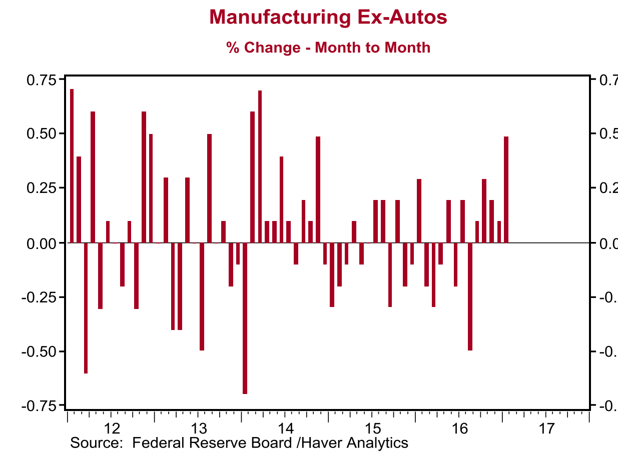
- Industrial production declined 0.3% in January, falling short of the consensus expected 0.0%. Utility output fell 5.7%, while mining rose 2.8%.
- Manufacturing, which excludes mining/utilities, increased 0.3% in January (Including revisions to prior months, manufacturing increased 0.6%). Auto production fell 2.9% while non-auto manufacturing rose 0.5%. Auto production is up 0.9% versus a year ago while non-auto manufacturing is up 0.3%.
- The production of high-tech equipment was unchanged in January but is up 5.4% versus a year ago.
- Overall capacity utilization fell to 75.3% in January from 75.6% in December. Manufacturing capacity utilization rose to 75.1% in January from 75.0% in December.





Implications: Industrial production took a breather in January after surging in December. However, the key to understanding this month's report is in the details, which were much stronger than the headline decline of 0.3%. Utilities and auto production, which are very volatile from month to month, were large drags on production. January was unusually warm in the lower-48 states, resulting in lower demand for heat and causing the largest monthly drop in utility output since 2006. Meanwhile manufacturing, which excludes mining and utilities, rose 0.3% in January despite a 2.9% drop in auto production. We like to follow "core" industrial production, which is manufacturing excluding autos, and this measure increased 0.5% in January and has been accelerating lately. Even though this measure is only up a tepid 0.3% in the past year, it's up at a 3.2% annual rate during the past three months. We think the acceleration in core production is, in part, a lagged effect of the rebound in oil prices, which adds to the production of machinery used in the energy sector. The rebound in energy prices is also having a direct effect on mining, which jumped 2.8% in January and posted its first positive year-over-year reading since April 2015. Further, oil and gas-well drilling posted its eighth consecutive gain in January, jumping 8.5%, and is now up at a massive 144% annual rate in the past three months. Based on other commodity prices, we think oil prices are in the "fair value" range, which should keep mining in recovery after the problems of the past two years. Although weak overseas economies will continue to be a headwind for production, we expect solid growth in the year ahead. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, surged to +18.7 in February from +6.5 in January, signaling continued improvement in the factory sector.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Jan-17**	**Dec-16**	**Nov-16**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**-0.3%**	0.6%	-0.2%	0.8%	0.2%	0.1%
Manufacturing	**0.3%**	0.2%	0.0%	2.0%	1.0%	0.4%
Motor Vehicles and Parts	**-2.9%**	1.4%	-2.0%	-13.2%	-3.1%	0.9%
Ex Motor Vehicles and Parts	**0.5%**	0.1%	0.2%	3.2%	1.4%	0.3%
Mining	**2.8%**	-1.4%	0.2%	5.7%	8.0%	0.4%
Utilities	**-5.7%**	5.1%	-2.5%	-13.0%	-11.6%	-2.7%
Business Equipment	**0.1%**	0.8%	-0.4%	2.0%	0.0%	1.2%
Consumer Goods	**-0.8%**	1.4%	-1.0%	-1.5%	-0.8%	-0.1%
High-Tech Equipment	**0.0%**	0.8%	1.2%	8.3%	9.9%	5.4%
Total Ex. High-Tech Equipment	**-0.2%**	0.6%	-0.3%	0.4%	-0.2%	-0.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**75.3**	75.6	75.2	75.4	75.4	75.4
Manufacturing	**75.1**	75.0	74.9	75.0	74.9	75.0

Source: Federal Reserve Board