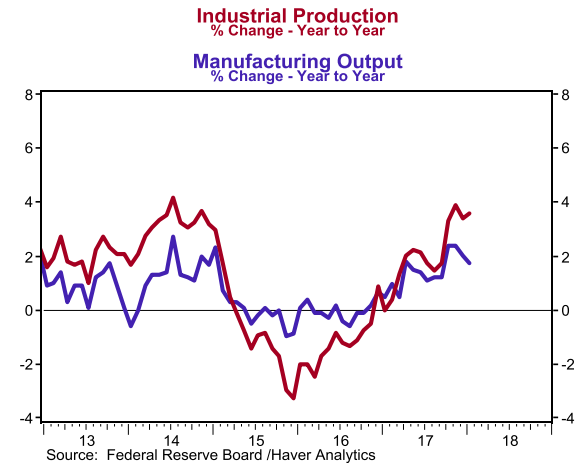


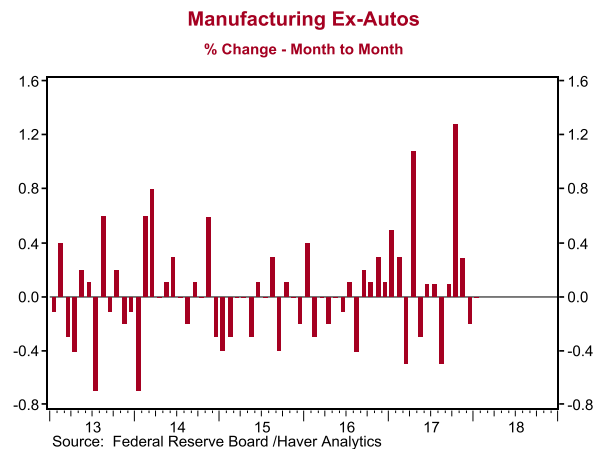
January Industrial Production / Capacity Utilization

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- Industrial production declined 0.1% in January (-0.3% including revisions to prior months), lagging the consensus expected gain of 0.2%. Utility output rose 0.6%, while mining fell 1.0%.
- Manufacturing, which excludes mining/utilities, was unchanged in January (-0.2% including revisions to prior months). Auto production rose 0.5% while non-auto manufacturing was unchanged. Auto production is up 1.4% versus a year ago while non-auto manufacturing is up 1.8%.
- The production of high-tech equipment rose 0.9% in January and is up 7.9% versus a year ago.
- Overall capacity utilization fell to 77.5% in January from 77.7% in December. Manufacturing capacity utilization was unchanged in January.



Implications: Industrial production started 2018 on a soft note, falling for the first time in five months. The headline series declined 0.1% in January. However, this is not the end of growth in the industrial sector. Industrial production is still up 3.6% from a year ago. The biggest drag in today’s report was mining, which dropped 1% and can be very volatile from month to month. Remember, January’s ISM manufacturing report posted its strongest level for that month in seven years. As a result, we expect a rebound in industrial sector growth in the months ahead as tax reform spurs investment, and stronger growth, both in the U.S and abroad, gives a tailwind to the factory sector. Meanwhile, although mining has dropped the past two months, it’s still up 8.8% from a year ago. Notably, oil and gas-well drilling stumbled in January, falling 1.4%, after a rebound of 0.9% in December. Even though drilling slowed in the second half of 2017, most likely associated with hurricanes Harvey and Irma, it remains up 30.1% from a year ago. In addition, the rig count has surged in recent weeks, suggesting a rebound in drilling activity in the months ahead. In other factory news this morning, the Empire State index, a measure of manufacturing sentiment in New York, dropped to a still healthy 13.1 in February from 17.7 in January. Meanwhile, the Philly Fed index, its counterpart among East Coast manufacturers, jumped to 25.8 in February from 22.2 in January, signaling growing optimism.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-18	Dec-17	Nov-17	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.4%	0.3%	2.3%	4.2%	3.6%
Manufacturing	0.0%	0.0%	0.2%	0.8%	3.1%	1.7%
Motor Vehicles and Parts	0.5%	1.2%	-0.3%	5.7%	16.8%	1.4%
Ex Motor Vehicles and Parts	0.0%	-0.2%	0.3%	0.4%	2.0%	1.8%
Mining	-1.0%	-0.4%	2.1%	2.9%	5.9%	8.8%
Utilities	0.6%	4.6%	-1.8%	14.3%	10.0%	10.9%
Business Equipment	1.0%	-0.3%	0.0%	2.7%	7.3%	4.8%
Consumer Goods	0.3%	0.9%	-0.8%	1.9%	3.8%	2.9%
High-Tech Equipment	0.9%	1.8%	2.1%	20.7%	17.9%	7.9%
Total Ex. High-Tech Equipment	0.0%	0.4%	0.2%	2.3%	4.1%	3.6%
Cap Utilization (Total)	77.5	77.7	77.5	3-mo Average	6-mo Average	12-mo Average
				77.6	77.0	76.7
Manufacturing	76.2	76.2	76.3	76.2	75.9	75.7

Source: Federal Reserve Board