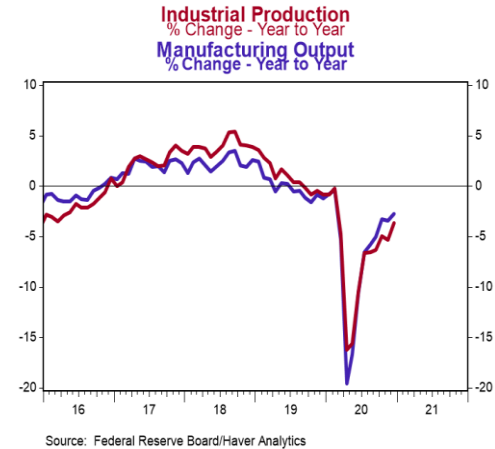


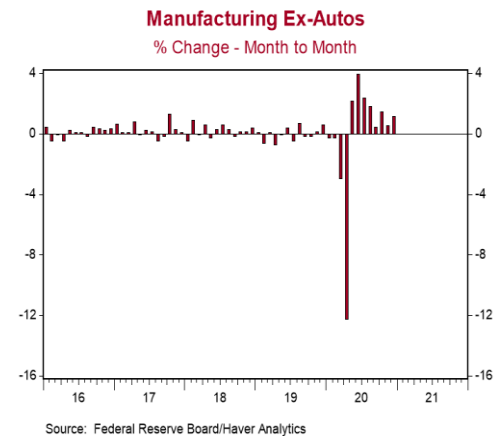
December Industrial Production / Capacity Utilization

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- Industrial production increased 1.6% in December, easily beating the consensus expected gain of 0.5%. Utilities output rose 6.3% in November, while mining rose 1.6%.
- Manufacturing, which excludes mining/utilities, increased 0.9% in December (+1.2% including revisions to prior months). Auto production fell 1.5%, while non-auto manufacturing rose 1.1%. Auto production is up 3.7% versus a year ago, while non-auto manufacturing is down 3.2%.
- The production of high-tech equipment increased 0.8% in December and is up 5.1% versus a year ago.
- Overall capacity utilization increased to 74.5% in December from 73.4% in November. Manufacturing capacity utilization rose to 73.4% in December from 72.7%.



Source: Federal Reserve Board/Haver Analytics



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Implications: Industrial production finished 2020 strong, rising for a third consecutive month and posting the largest monthly gain since July. Moreover, gains were broad-based in December, with nearly every major series posting an increase. Industrial production has now made up 80% of the decline in activity during the height of COVID-19 lockdowns back in March and April. We expect a continuing rebound in the factory-sector in the months ahead, and here is why. This morning’s report on retail sales showed consumer spending outside the pandemic hit restaurant sector up 6.0% from its February pre-pandemic level, and personal consumption spending on goods is up 6.7% from February through November. The pandemic has clearly shifted consumer preferences from services (like travel or attending sporting events) toward goods, and with the manufacturing index still down 2.4% from its pre-pandemic level, a continued rebound will be necessary to meet demand going forward. The good news is factories are responding, with the biggest source of strength in December coming from the manufacturing sector which increased 0.9%, the eighth consecutive monthly gain. Looking at the details, a 1.5% decline in auto-manufacturing was more than offset by a 1.1% gain in non-auto manufacturing. Keep in mind that auto manufacturing has already made a full V-shaped recovery and is now up 3.7% versus a year ago while non-auto production is still down 3.2% over the same period. Look for monthly gains in non-auto manufacturing to outstrip readings from the auto sector as the former series continues to make up ground. Meanwhile, the beleaguered mining sector posted a gain of 1.6% in December, primarily the result of an increase in both drilling and extraction activity at oil and gas wells. Finally, utilities posted a gain of 6.3%, the result of a rebound in demand for heating as temperatures became cooler in December after an unseasonably warm November. In other recent factory-related news, the Empire State Index, a measure of New York factory sentiment, fell to +3.5 in January from +4.9 in December. While factories in the region have been paring back their optimism since September, sentiment remains positive and well above deeply negative readings early on in the pandemic.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-20	Nov-20	Oct-20	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.6%	0.5%	1.0%	12.6%	16.8%	-3.6%
Manufacturing	0.9%	0.8%	1.3%	12.7%	18.7%	-2.8%
Motor Vehicles and Parts	-1.5%	5.0%	-0.8%	10.6%	57.8%	3.7%
Ex Motor Vehicles and Parts	1.1%	0.5%	1.4%	12.9%	16.3%	-3.2%
Mining	1.6%	2.8%	-1.7%	11.3%	12.5%	-12.3%
Utilities	6.3%	-4.5%	2.0%	15.2%	9.7%	2.8%
Business Equipment	0.5%	2.1%	1.1%	15.9%	27.9%	-7.1%
Consumer Goods	1.6%	-0.1%	0.5%	8.3%	13.7%	0.5%
High-Tech Equipment	0.8%	0.3%	1.8%	12.3%	14.1%	5.1%
Total Ex. High-Tech Equipment	1.6%	0.5%	1.0%	12.8%	16.8%	-3.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	74.5	73.4	73.0	73.6	72.9	71.9
Manufacturing	73.4	72.7	72.1	72.7	71.8	70.2

Source: Federal Reserve Board