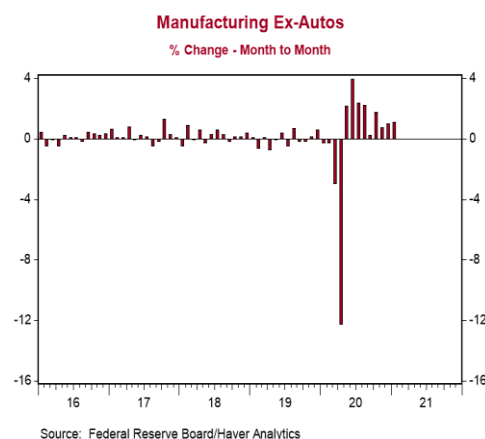
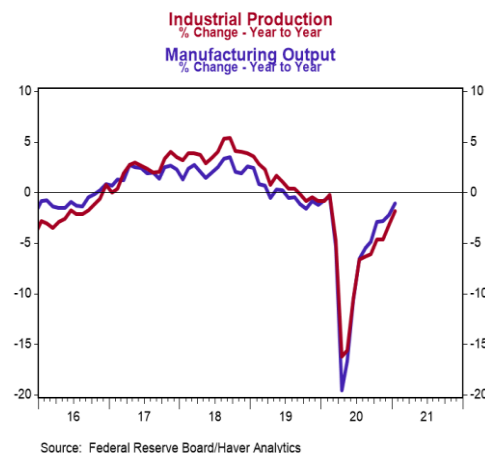


## January Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist  
Robert Stein, CFA – Dep. Chief Economist  
Strider Elass – Senior Economist

- Industrial production increased 0.9% in January (+1.4% including revisions to prior months), easily beating the consensus expected gain of 0.4%. Utilities output fell 1.2% in January, while mining rose 2.3%.
- Manufacturing, which excludes mining/utilities, increased 1.0% in January (+1.6% including revisions to prior months). Auto production fell 0.7%, while non-auto manufacturing rose 1.1%. Auto production is up 1.7% versus a year ago, while non-auto manufacturing is down 1.3%.
- The production of high-tech equipment increased 1.5% in January and is up 6.8% versus a year ago.
- Overall capacity utilization increased to 75.6% in January from 74.9% in December. Manufacturing capacity utilization rose to 74.6% in January from 73.9%.



**Implications:** Industrial production started the new year on strong footing, rising for a fourth consecutive month and posting upward revisions for prior months, as well. Industrial production has now made up 88% of the decline in activity during the height of COVID-19 lockdowns back in March and April. Moreover, the rebound seems to be re-accelerating again after slower growth late last year, with the 3-month annualized growth rate reaching 13.3% in January versus just 8.0% in November. We expect a continuing rebound in the factory-sector in the months ahead, and this morning's data on consumer spending illustrates why. January retail sales excluding the pandemic-hit restaurant sector are now up 11.2% from pre-pandemic levels. COVID-19 has clearly shifted consumer preferences from services (like travel, dining, or attending sporting events) toward goods, and with the manufacturing index still down 1.0% 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 January coming from the manufacturing sector which increased 1.0%. Looking at the details, a 0.7% 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 1.7% versus a year ago while non-auto production is still down 1.3% 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 rose 2.3% in January, its third consecutive gain. Finally, utilities output fell 1.2% in January, but is set for a rebound in February due to the polar vortex the US is currently experiencing. In other recent factory-related news, the Empire State Index, a measure of New York factory sentiment, jumped to +12.1 in February from +3.5 in January. The major driver of this increase was prices manufacturers reported paying for materials and receiving for finished products, which both rose to the highest levels since 2011, signaling ongoing inflationary pressures.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-21	Dec-20	Nov-20	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.9%</b>	1.3%	0.9%	13.3%	10.7%	-1.8%
<b>Manufacturing</b>	<b>1.0%</b>	0.9%	1.0%	12.4%	13.1%	-1.0%
<b>Motor Vehicles and Parts</b>	<b>-0.7%</b>	-0.2%	4.1%	13.1%	-7.6%	1.7%
<b>Ex Motor Vehicles and Parts</b>	<b>1.1%</b>	1.0%	0.7%	11.8%	14.8%	-1.3%
<b>Mining</b>	<b>2.3%</b>	0.7%	3.4%	29.1%	9.1%	-11.5%
<b>Utilities</b>	<b>-1.2%</b>	4.8%	-3.1%	1.5%	-3.0%	6.6%
<b>Business Equipment</b>	<b>0.4%</b>	0.6%	2.1%	13.2%	13.2%	-3.8%
<b>Consumer Goods</b>	<b>0.7%</b>	1.5%	0.4%	10.7%	6.6%	2.8%
<b>High-Tech Equipment</b>	<b>1.5%</b>	-0.4%	0.3%	5.6%	12.0%	6.8%
<b>Total Ex. High-Tech Equipment</b>	<b>1.0%</b>	1.3%	0.9%	13.0%	10.6%	-2.0%
<b>Cap Utilization (Total)</b>	<b>75.6</b>	74.9	73.9	3-mo Average 74.8	6-mo Average 73.8	12-mo Average 71.9
<b>Manufacturing</b>	<b>74.6</b>	73.9	73.2	73.9	72.8	70.3

Source: Federal Reserve Board