



Economics Group

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Industrial Production Comes Back in December

Industrial production bounced back in December, rising 0.4 percent on the heels of a 0.3 percent decline in November. Output excluding motor vehicle and technology production also rose 0.4 percent on the month.

Manufacturing Output Shows Strength

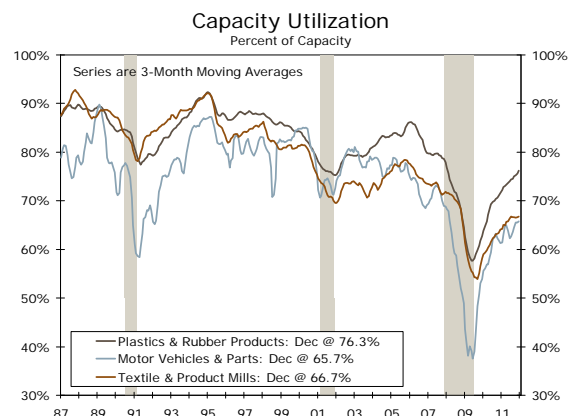
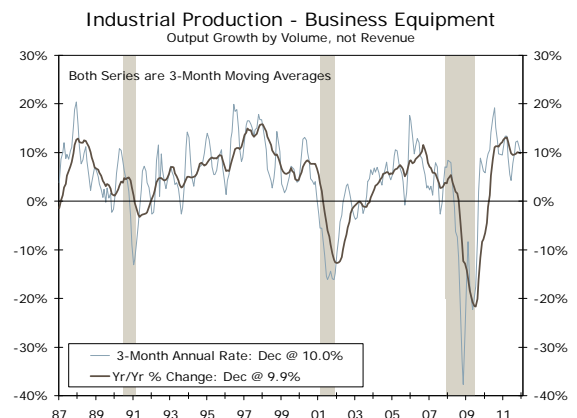
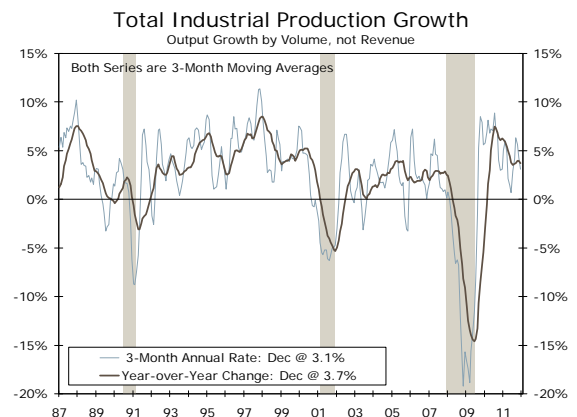
Manufacturing output rose 0.9 percent in December after posting a 0.4 percent decline in November. Output of durable goods rose 0.9 percent, while production of nondurable goods rose 0.8 percent on the month. Motor vehicle production returned to positive territory, rising 0.6 percent after a 2.6 percent decline in the prior month. Excluding volatile motor vehicle output, industrial production still rose 0.4 percent as a strong 2.1 percent rise in machinery and a 1.0 percent rise in computer and electronics helped to boost the headline number. The only area of weakness in the report was a 2.7 percent contraction in utilities production due to unseasonably warm weather. Electric production fell 1.7 percent for the month, while natural gas production fell 8.5 percent. The modest pace of manufacturing production in December supports our view that the economy ended the year on a strong note. We continue to forecast that GDP growth for the fourth quarter will come in around 3.4 percent.

Final Product Output Rises Slightly

Output of final consumer goods rose 0.2 percent in December, with automotive production, home electronics and non-energy nondurables offsetting the declines in appliances, furniture, carpeting and consumer energy productions. Business equipment output rose 0.8 percent on the month with information processing leading the production increase. The strong equipment output continues to point toward modest strength in equipment and software spending in the year ahead. Another interesting aspect of the report is the 1.0 percent rise in construction supply output, likely reflecting the ongoing remodeling trend within the housing market. Defense and space final goods output declined 1.3 percent in December, the first decrease since June of last year.

Capacity Utilization Continues to Climb

Capacity utilization returned to 78.1 percent after posting a slight decline in November. Utilization is now back to levels observed in October of last year. Capacity utilization levels rose for most industry categories with the exception of utilities and semiconductors. Manufacturing utilization also improved for the month, rising to 75.9 percent. One industry in particular that continues to ramp up its use of capacity is the automotive sector. Capacity utilization in the automotive sector continued its gradual march upwards, rising to 65.7 percent in the fourth quarter from 64.5 percent in the third quarter. If auto production schedules for January are any indication, there is a good chance that utilization will continue to improve for this industry. Many auto producers with domestic plants are reporting plans to add third-shift workers in order to keep output in pace with the strong consumer demand for automobiles.



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