

U.S. Flash

Industrial Production Up as Equipment Demand Grows

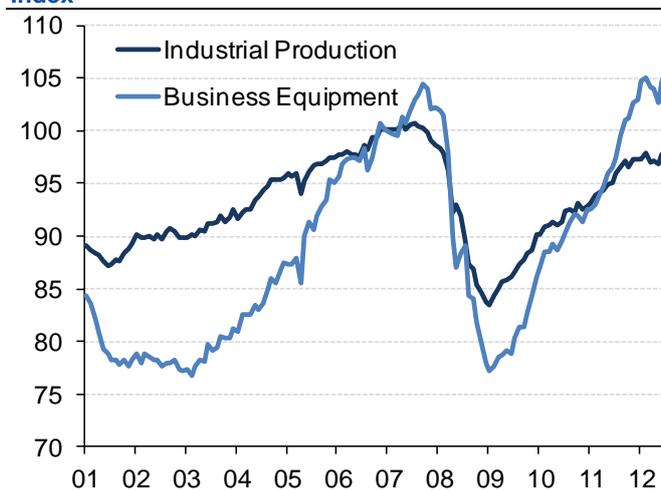
- Industrial production expanded 0.3% in December despite fiscal uncertainty
- Manufacturing of durable goods outpaces non-durables as autos remain strong
- Capacity utilization rises to 78.8%

Despite fears that a breakdown of fiscal negotiations was going to hamper production and investment, industrial production ended the year on a positive note as it continued to grow, although at a slower pace. Up 2.3% year-over-year, industrial production continued its monthly expansion since October. The index achieved its post-recession high of 98.1 – only 2.6% off its high during late 2007. This outturn comes after the market expected a much slower rate of growth due to fiscal uncertainty. Manufacturing output rose solidly at 0.9%, boosted by strong increases in motor vehicles and parts, computer and electronic products and chemical products. Demand for autos has remained high among both businesses and consumers: thus, rising sales are requiring manufacturers to ramp up their output. A driver of the growth in computer and electronic production for December was business IT-related capital, which rose 2.0% after falling since September.

Despite higher-than-expected growth in manufacturing, a fall in utilities' output dragged down the total industrial production index's growth rate. The electric and gas utilities industry production dropped dramatically by 4.8% electric power generation fell nearly 4% and natural gas distribution plunged 11.3% for the month. Capacity utilization rose 0.1 percentage points after November's upward revision, and reflects an overall positive sign that manufacturing output will continue to grow. We expect moderate growth ahead as we move into 2013, although risks from ongoing fiscal negotiations add to market uncertainty. International headwinds, however, appear to softening as global growth is resuming.

Chart 1

Industrial Production Index



Source: Federal Reserve Board

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7342

Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

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