

U.S. Flash

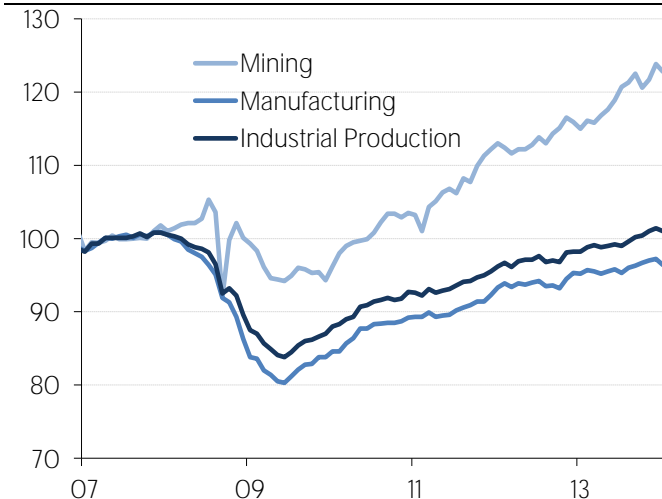
Industrial Production Declines in Wake of Extreme Weather

- Total output decreased 0.3% in January, the sharpest decline since April 2013
- Manufacturing and mining activity each declined for the first time in months
- Utilities output jumped 4.1% as consumers cranked up heat to combat the Polar Vortex

Industrial production fell below expectations in January, declining by a seasonally adjusted 0.3% on a MoM basis. The dropoff was largely attributed to a steep decline in manufacturing and mining output, which fell 0.8% and 0.9%, respectively. Utilities output jumped 4.1% from the previous month as sub-freezing weather continued to plague large portions of the country. The increased activity in the utilities sector, however, was not enough to keep overall production from falling. Although the dip in industrial production was the largest MoM fall since April 2013, YoY figures remain positive and show a pickup in the index from a year prior, up 2.85%. Overall, capacity utilization fell from 78.9% in December to 78.5%, but the index remains healthy compared to the past few years.

While the industrial production data for January fell below our forecasts, we are not entirely surprised by the dropoff given the recent indicators signaling a slowdown in the manufacturing sector. The dropoff in manufacturing and mining should be taken with a grain of salt, as seasonality and extreme weather conditions certainly contributed to the slowdown in activity. Unless production activity does not pick up as we move forward into 1H14, we do not see this as a time to panic. Looking at the big picture, industrial production has been trending positive over the last two years, and as the majority of economic indicators continue to pickup, we fully expect an upward trend moving forward.

Chart 1
Industrial Production Index



Source: Federal Reserve Board & BBVA Research

Chart 2
Industrial Production YoY% Change



Source: Federal Reserve Board & BBVA Research

Michael Soni
Michael.Soni@bbvacompass.com
+1 713 831 7348

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