U.S. Flash

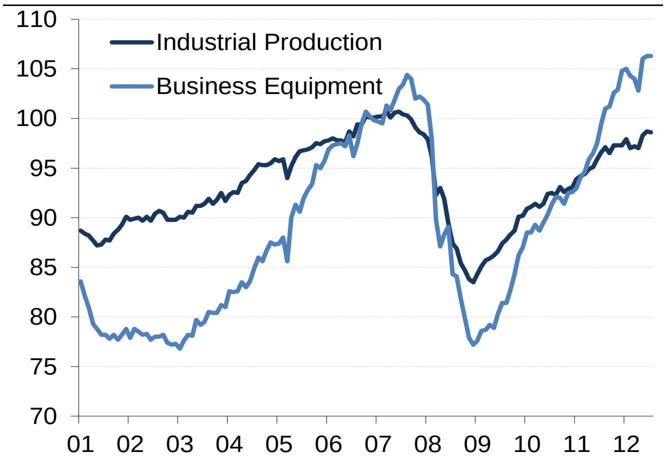
Industrial Production Down Despite Jump in Utilities

- **Output declined by 0.1% in January after stronger growth in the prior two months**
- **Manufacturing of durable goods, specifically vehicles, fell on weaker consumer demand**
- **Utilities output jumped 3.5% but was offset by mining and manufacturing declines**

After two months of moderately strong growth, industrial production fell by 0.1% in January as manufacturing eased on a broad basis. Although the decline was led by an unwelcome decline in the production of vehicles, the general decline in production is less worrying than it seems. Output in December was revised up from 0.3% to 0.4%, mostly on account of higher manufacturing production. The past two months of stronger growth coupled with the general upward trend in the index since the fall of 2012 was interrupted by the political and financial struggles that continue to haunt businesses and consumers. Consumer goods production declined by 0.2% on weaker demand for durable goods, assumedly due to the expiring payroll tax cut that prompted larger purchases before the tax took effect on January 1st. Automotive production took a sharper dip, almost 4.0%, after growing at an accelerating pace throughout the fourth quarter as demand grew for competitive domestic options over imports. The computer, audio, and video equipment category also dropped 1.2% to round out the overall drop in consumer demand. However, on the non-durable side, utilities grew at a markedly strong pace on increasing energy production in the form of electricity and natural gas, up 3.5% after a strong decline in the month before. The capacity utilization figure, revised up for December, raised the bar for January's figure, coming in at 79.1% compared to December's revised 79.3%.

Overall, both mining and manufacturing showed some signs of stuttering as the New Year took off but the decline is less worrying when considering the various headwinds impacting demand in January. However, if the auto industry continues to see declines in demand and thusly curtails production, there might be some dampening in the upcoming months coupled with the relatively uncertain future of the U.S. budget and fiscal situation. While the decline was minimal and with headwinds still visible, we still expect February to show some better figures as regional reports such as the Empire State Manufacturing survey rose at an extraordinary rate, hinting at stronger production growth.

Chart 1
Industrial Production Index



Source: Federal Reserve Board

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