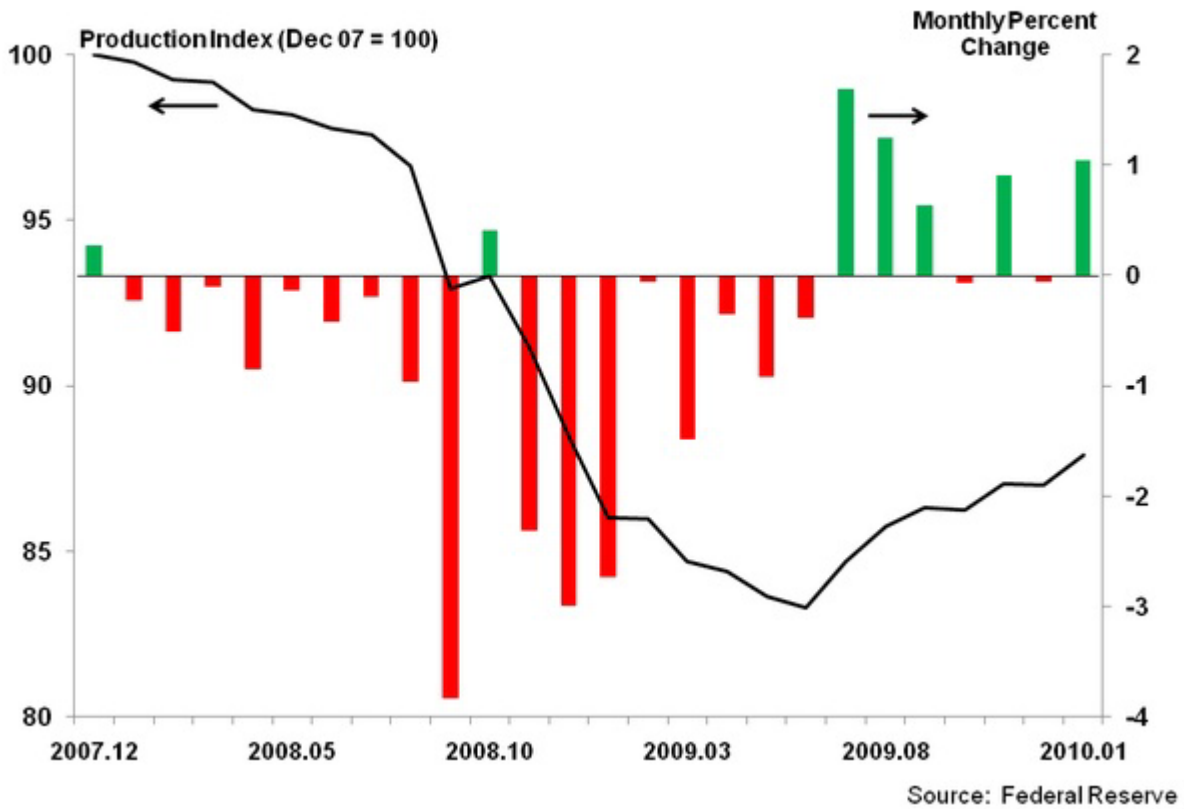




## Manufacturing Production



**February 22, 2010**

Last week's eight economic reports were virtually a sea of green, with seven of the eight indicators increasing. The lone dissenting report, a rise in new unemployment claims for the week of February 13, was likely caused by a temporary event. *(To see all of last week's indicators, see the Latest Economic Reports section below.)*

Three of last week's reports involved the manufacturing sector. The Federal Reserve reported that factory production surged by a strong 1 percent in January. This was the fifth strong increase in the past seven months following 18 months of nearly constant declines (see **red** and **green** bars in chart above).

While the manufacturing sector is clearly at the beginning stages of recovery, it is important to note that major contributors to growth (inventory rebuilding and fiscal stimuli, such as bonus depreciation, Cash for Clunkers and the first time homebuyer tax credit) either have ended or will continue for only a few more months.

While the upturn in exports will likely prove durable, a solid recovery in the labor market, consumer spending and business investment will be needed for a self-sustaining expansion to emerge.

As the **black line** in the chart shows, after falling by 16.7 percent from December 2007 to June 2009, manufacturing production steadily increased through January 2010. Still, production remains 12 percent below its peak before the 2008-2009 recession began.

Meanwhile, regional manufacturing reports by both the New York and Philadelphia Federal Reserve Banks both forecast that the manufacturing recovery extended into February.

**Dave Huether**  
Chief Economist  
National Association of Manufacturers

## Latest Economic Reports

### Last Week's Economic Indicators:

#### Color Code

**Positive (improving)**

**Positive (slowing)**

**Unchanged**

**Negative (improving)**

**Negative (declining)**

#### Industrial Production (January)

Fueled by a 1-percent gain in manufacturing output, overall industrial production surged 0.9 percent in January. Mining and utility output both rose 0.7 percent.

With 16 of the 19 major manufacturing industries posting production gains, the January upturn in manufacturing output was the most widespread gain in five months, with declines only taking place in furniture, petroleum and coal products and printing.

### This Week's Indicators:

#### Monday

Texas Manufacturing Outlook (February)

#### Tuesday

Home Prices (December)

Consumer Confidence (February)

Richmond Fed Manufacturing Survey (February)

#### Wednesday

New Home Sales (January)

#### Thursday

Durable Goods Orders (January)

Kansas City Fed Manufacturing Survey (February)

Weekly Jobless Claims

#### Friday

GDP (4th Quarter Revised)

Existing Home Sales (January)

### **New York Fed Manufacturing Report (February)**

The New York Federal Reserve's Empire State manufacturing survey increased by 9 points to 24.9 in February, marking the seventh consecutive month above the growth threshold of 0 and the highest level in four months.

Inventories moved into a neutral position after being in negative territory for 17 months.

Decelerations in both new orders and capital expenditure plans signal that the pace of expansion may moderate in coming months.

### **Philadelphia Fed Manufacturing Report (February)**

The Philadelphia Federal Reserve's general business conditions index improved in February and rose to 17.6 from 15.2 in January. This was the sixth consecutive month above the growth threshold of 0.

The inventory component of the report moved into positive territory for the first time since September 2007. This, as well as the improvement in inventories in the New York report, is the first signal that manufacturers are starting rebuild inventories, which will be a another boost to GDP growth in the first quarter.

### **NAHB Housing Market Index (February)**

The National Association of Home Builders (NAHB) housing market index edged up slightly to 17 from 15 in January. While up significantly from the trough level of 8 in January 2009, the index has hovered around its current level for five months.

While the "next month" component of the survey is at a higher level of 27, this expectation of future activity has not improved in seven months, signaling that a near-term significant acceleration in the housing market is unlikely.

Questions or Comments?  
Please contact Dave Huether at  
[dhuether@nam.org](mailto:dhuether@nam.org)

### **Residential Construction (January)**

Housing starts increased by a modest 2.8 percent in January. This marks the fourth increase in the past seven months and the seventh increase in the past 12 months. So, while it appears that residential investment will continue to recover in the first half of 2010, aided by the extension of the first-time homebuyer tax credit, a significant acceleration in the first quarter of 2010 appears unlikely.

### **Producer Prices (January)**

Producer prices for finished goods rose 1.4 percent in January, most of which can be attributed to a 5.1-percent jump in prices for energy goods (the price of crude oil rose by 5.2 percent from 74.5 in December to 78.3 in January). However, oil prices have decelerated so far this month, so there will likely be a reversal in energy and overall producer prices in February.

Excluding food and energy, core prices for finished goods were up 0.3 percent compared with no change in December.

### **Consumer Prices (January)**

Consumer prices increased by 0.2 percent in January, the fifth consecutive identical monthly change. As with producer prices, the main increase was in energy prices. Retail gasoline prices rose 4 percent in January to an average level of 2.77 per gallon. Driven by lower oil prices, gasoline prices have moderated through the first half of February.

Outside of food and energy, the core Consumer Price Index edged down 0.1 percent in January after remaining essentially unchanged for the prior two months.

### Weekly Jobless Claims

Initial claims for unemployment benefits unexpectedly increased by 31,000 to 473,000 for the week ending February 13. This was the fifth increase in the past seven weeks and the single largest upturn in four weeks.

While the increase in new claims could be fallout from temporary plant shutdowns by Toyota, weekly initial claims have oscillated around 460,000 for the past 12 weeks after falling significantly for most of 2009. This gauge of the labor market indicates a slow improvement in February.

[{Back to top}](#)



---

Copyright © 2010 National Association of Manufacturers

---

To unsubscribe to this communication, [click here](#).