HIGHLIGHTS

- Industrial output rose 0.3% in December after November’s 1.0% jump. Manufacturing output rose 0.8% after gaining 1.3% in November. Mining activity advanced 0.6%, while energy production tumbled 4.8%.
- The consumer price index (CPI) was stable in December after dipping 0.3% in November. Energy prices dropped 1.2%, while food prices went up 0.2%. The core index, which excludes food and energy, is up 0.1% for the fifth time in six months.
- On an annual basis, the total CPI goes from 1.8% to 1.7%. Core inflation is flat at 1.9%. For 2012 as a whole, total and core inflation both rose to 2.1% (annual averages).

COMMENTS

For the first time since last summer, manufacturing output posted two consecutive monthly increases. A number of problems that stemmed from the hurricanes in August and October harmed production. In 2012, the annual change in industrial production was just 3.7%, slower than the two previous years, despite a 19.0% increase in the automobile sector. This sector was also one of the sectors that performed the best in December, along with metallurgy, clothing, and electronics. The drop in energy output, the biggest since 2007, primarily results from abnormally warm weather.

Energy and gas prices continue to curb growth by consumer prices. For core inflation, the sense is that there is little upside pressure. December saw pullbacks by prices for clothing, used vehicles, and medical products. Goods prices excluding food and energy posted their biggest annualized quarterly drop (-1.6%) since December 2008.

Implications: Industrial output is returning to a more normal pace, but the tumble by energy output is worrisome in terms of personal consumption of services in December. Consumer spending could thus be weaker than indicated by retail sales. As for inflation, upside pressure is scarce, giving the Federal Reserve a lot of leeway in pursuing its current securities purchasing policy.