Economic News
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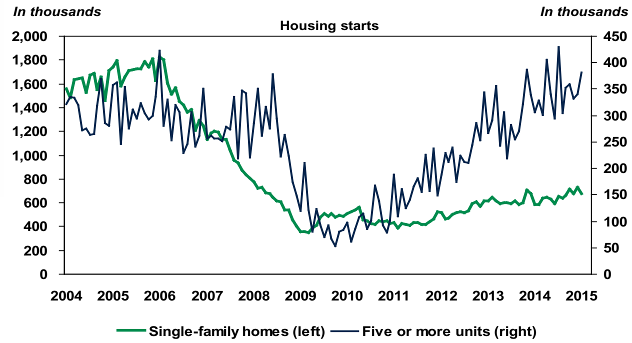
# UNITED STATES

## Modest rise in manufacturing, but pullback in housing starts

### HIGHLIGHTS

- Industrial output increased 0.2% in January following December's 0.3% decrease. Manufacturing output also advanced 0.2% after stagnating the previous month. Activity in the mining sector slipped 1.0%, while energy production recovered 2.3% after losing 6.9% in December. The industrial capacity utilization rate held steady at 79.4%.
- Housing starts were down slightly from an annualized level of 1,087,000 units in December to 1,065,000 in January. This 2.0% decline follows a 7.1% gain. The pullback in housing starts stems solely from single-family homes (-6.7%), whereas multi-unit housing recorded a 12.1% increase. The Midwest saw a particular contraction in housing starts. Building permits slipped 0.7% to 1,053,000 units from 1,060,000 units.

Single-family home construction remains weak




Sources: U.S. Census Bureau and Desjardins, Economic Studies

### COMMENTS

Industrial production has been suffering the vagaries of weather conditions for some time. Unusually cold temperatures boosted energy production in November, and warmer weather in December caused it to plummet. Colder weather pushed production back up in January. This most recent jump in heating demand should also make a positive showing in real consumption of services in January. For manufacturing, there is disappointment, with more underperformance in the automotive sector. Production slid 0.6% in January after tumbling 1.3% in December, although the sharp rise in hours worked in this sector had suggested strong growth. There are nevertheless improvements in metallurgy, machinery, electrical equipment and electronic goods. The mining sector contracted for the third time in four months. The impact of falling gas prices is beginning to show, as well drilling is down 12.8% from last September.

In addition, the drop in housing starts is slightly larger than the consensus predicted. However, it remains more moderate than our own expectations, which saw the adverse effects of poor weather conditions potentially doing further damage to new construction. The larger fall in housing starts for single-family homes seems much more worrisome, and they remain at a very low level. Residential investment should not contribute much to growth in the first quarter of 2015, but for the overall year we expect better growth in this sector than the meager 1.6% achieved in 2014.

**Implications:** Besides employment and consumer confidence, the most recent U.S. economic indicators do not suggest a strong recovery in activity in the first quarter of 2015 following the 2.6% estimated real GDP growth for the fourth quarter of 2014. Similar to last year, but to a lesser extent, weather conditions seem to again have an impact on economic growth. We still expect better growth in the coming months and quarters. In the meantime, Federal Reserve leaders will continue to be patient, especially since the housing sector remains fragile.

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