

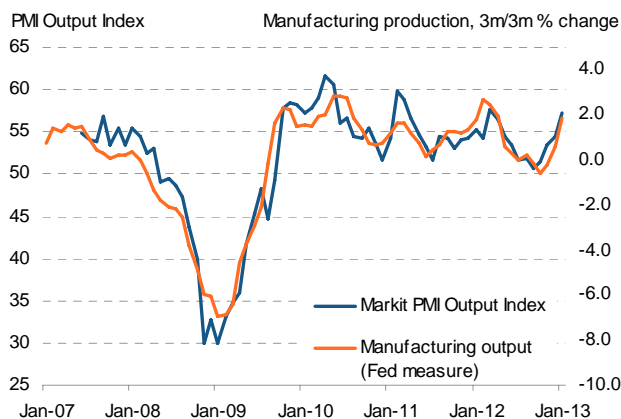
United States

Industrial production growth trend hits 11-month high despite January dip

- Industrial production fell 0.1% in January, but still 1.5% higher in latest three months
- Manufacturing output down 0.4%, but up 1.9% in latest three months

At first glance, industrial production data provide further signs that the US economy got off to a disappointing start to the year, but news of a small drop in output in January needs to be looked at in the context of strong growth in prior months, confirming messages from business surveys that the underlying trend in the economy remained one of firm growth in January.

US manufacturing



Industrial production fell 0.1% in January, confounding analysts' expectations of a 0.2% increase. The downturn was led by a 0.4% drop in manufacturing output. However, December's industrial production numbers were revised up, from 0.3% to 0.4%, and November had seen a 1.4% increase. The January data therefore need to be looked at in part as an adjustment of production levels from the strong upturn seen late last year, and importantly the three-month growth rate accelerated from 0.6% in December to 1.5% in January, pointing to the strongest underlying growth trend since last February.

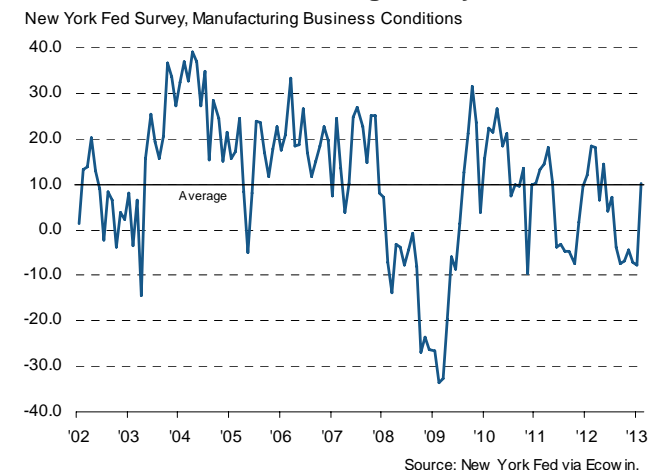
Manufacturing output is meanwhile still up 1.9% in the latest three-month period, despite the wobble in

January, enjoying the strongest pace of expansion since last April.

Survey upturn

The survey data also support the view that January's official data are merely a statistical correction from strength in previous months, rather than an indication that goods producing sector is heading for a downturn. The 1.5% quarterly rate of increase in production was exactly in line with the message from Markit's survey of purchasing managers, who reported that output growth accelerated in January. The official data also follow news from the New York Fed that manufacturing business conditions improved across the state as the fastest rate since last May, with a positive reading of +10% contrasting markedly with strongly negative outturns in the previous two months.

New York Fed manufacturing survey

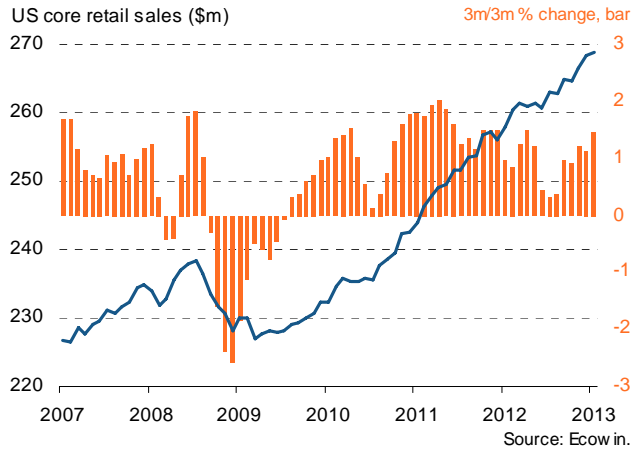


Retail sales trend also shows ongoing strength

The production data come on the back of retail sales data, which also disappointed in January. However, as with the production data, it is unwise to draw too much negativity from one month's sales data, especially when the underlying trend in the sales data has strengthened. In the three months to January, core sales were up 1.5% on the previous three months,

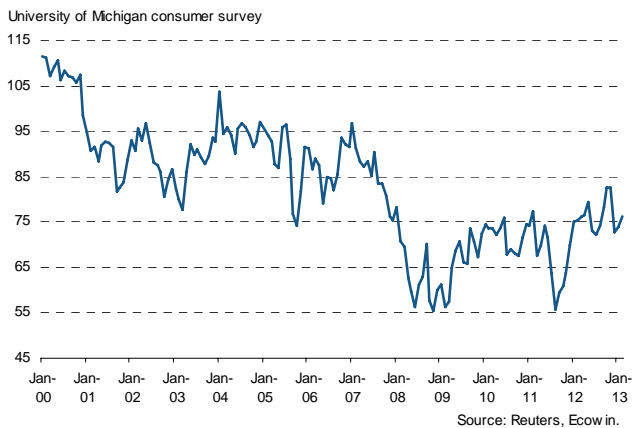
registering the strongest rate of increase for nine months.

Retail sales



As with the manufacturing data, there are survey results which add to confidence that the January sales data do not represent the start of a renewed weakening trend in demand. The University of Michigan consumer confidence index lifted to its highest for three months in February, up from 73.8 in January to 76.3.

Consumer confidence



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