WASHINGTON -- Industrial production rose for a fourth straight month in December but at a much slower pace.

Industrial production increased 0.1%, down sharply from the revised 1% rate in November, the Federal Reserve reported Friday. November's gain was the largest since October 1999, while December's was the smallest since August. Capacity use held at 75.8%, the same as the revised November level.

Economists had expected industrial production to rise 0.4%, and for capacity use to come in at 75.9%, according to a survey by Dow Jones Newswires and CNBC.

A separate report showed consumer sentiment soared this month.

The University of Michigan reported its index measuring consumers' collective mood jumped to 103.2 in a mid-January reading from 92.6 in December. January's reading was the highest since November 2000 and was well above the 94 economists had expected.

The biggest improvement was in consumers' assessment of current conditions, which has lagged behind their expectations for the future. The current-conditions subindex shot up over 10 points to 108.9. A measure of expectations jumped nearly 10 points as well, to 99.5.

In the industrial-production report, the overall gain was small but it showed that U.S. factories haven't given back any of their recent gains. The manufacturing sector appears to have emerged from a three-year slump, and companies are optimistic about the coming year.

"The recovery in the industrial and manufacturing sectors of the economy took a slight breather at year end," wrote Steven Wood, chief economist at Insight Economics, in a note to clients. But, he added, "further gains in manufacturing output should begin to create some new factory jobs in the months ahead."
Indeed, U.S. manufacturing executives offered their brightest economic outlook in more than 30 years, a trade group said Thursday. The Manufacturers Alliance reported its business-outlook index rose to 77 in December, which was the highest reading since the group started the survey in 1972. That was a sharp rise from the previous quarterly reading of 68, recorded in September. An index over 50 means respondents expect growth in the coming quarter.

Earlier Thursday, two of the Fed's regional banks, offered upbeat assessments on manufacturing for January. The New York Fed reported its business-conditions index hit a record 39.22 in January, the ninth straight month of manufacturing growth. The Philadelphia Fed said its business index rose to 38, as nearly half of the firms reported increases in activity and new orders.

In Friday's industrial-production report, output at factories, the biggest chunk of industrial activity tracked by the Fed, rose 0.3%, after a 1% gain in November. Output at mines was flat, following a 0.6% increase; production at utilities sank 1.4%, erasing the same-size gain the month before.

Auto production rose, after back-to-back declines in October and November. Production of motor-vehicle assemblies rose to an annual rate of 11.93 million for autos and light trucks in December from the November rate of 11.82 million. Motor vehicles and parts production climbed 0.6% in December, and production of consumer automotive products increased 0.4%. Excluding autos, manufacturing production was unchanged last month, after rising 1% in November.

Business-equipment production slid 0.1%, after a 1.9% surge in November. Also, the technology industry posted another month of strong gains. Production in that sector rose 1.9%. Semiconductor production grew 3.6%, while output of computers and office equipment rose 2.6%. But production of communications equipment fell 2.2%, after gaining in the two previous months. Excluding select technology industries, industrial production was unchanged in December after a 1% gain in November.

Stocking the Shelves

Meanwhile, business inventories increased 0.3% to a seasonally adjusted $1.19 trillion, following a 0.4% gain in October, the Commerce Department reported earlier Friday.

Economists had expected inventories to rise by only 0.2%. Many say inventories are lean. Factoring in rising economic growth, many expect companies to keep restocking shelves.

Business sales rose 0.5% in November, after climbing 0.7% the previous month. The inventory-to-sales ratio was 1.35, the same as in October. The inventory-to-sales ratio, an indicator of how well firms are matching supply with demand, measures how long it would take in months for a firm to sell all of its current inventory.

Retail inventories increased by 0.7% in November, matching the October advance. Within that category, auto stocks rose 1.2%. Excluding the auto component, retail inventories would have climbed 0.5%. Furniture-store inventories rose 0.9%, while stockpiles of goods at building materials, garden equipment and supplies stores increased 0.7%. Stockpiles at general merchandise stores fell 0.3%.

In annual terms, overall business inventories were up 2.1%. Sales increased by 5.4% from November 2002.
Inventory building can be a sign that businesses are feeling more confident the economic recovery is genuine. Importantly, though, the process adds to economic growth, as measured by the gross domestic product. GDP measures the value of all goods and services produced within the U.S. and is the broadest measure of the economy's health. Big cutbacks by companies in their inventories was a key factor in the economy's slump.

With the economy improving, economists are hopeful businesses will feel even better about prospects and will ramp up inventories and hiring. Businesses still have been reluctant to go on a major hiring spree, which has been a sore spot for jobseekers as well as the economy.

**Watching the Fed**

Economists widely expect the Fed will leave its target for a key short-term interest rate at a 45-year low of 1% when policy makers next meet Jan. 27-28.

In capping of a slew of Fed speakers this week, Anthony Santomero, the president of the Philadelphia Fed, said late Thursday: "No monetary policy action is likely to be necessary in the near term."

Some economists believe rates will stay at such super-low levels for the rest of the year and into 2005. Others, however, believe the Fed could start pushing rates up later this year. With inflation low, the Fed has leeway to keep rates near rock-bottom levels for some time to help the labor market heal, economists say.

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