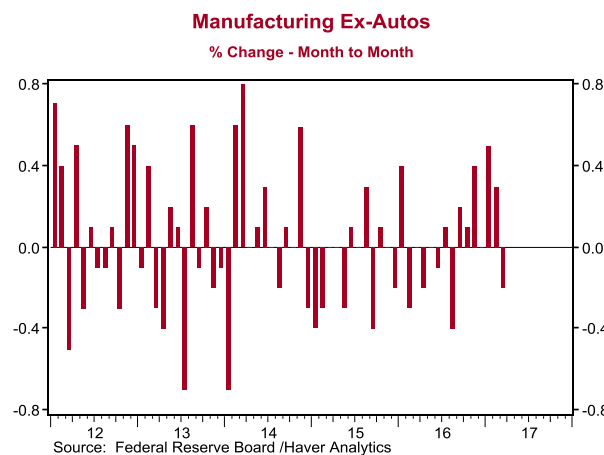
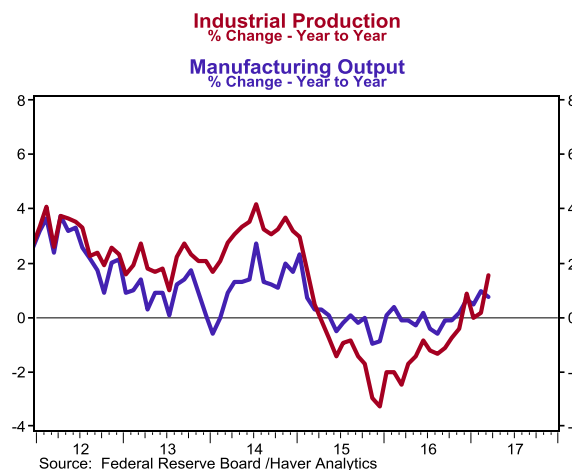


March Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Industrial production increased 0.5% in March, matching consensus expectations (Including revisions to prior months, production increased 0.4%). Utility output rose 8.7%, while mining rose 0.1%.
- Manufacturing, which excludes mining/utilities, declined 0.4% in March (Including revisions to prior months, manufacturing declined 0.7%). Auto production fell 2.9% while non-auto manufacturing fell 0.2%. Auto production is up 1.4% versus a year ago while non-auto manufacturing is up 0.7%.
- The production of high-tech equipment rose 0.4% in March and is up 5.8% versus a year ago.
- Overall capacity utilization rose to 76.1% in March from 75.7% in February. Manufacturing capacity utilization fell to 75.3% in March from 75.6% in February.



Implications: Despite the positive headline number in March, the details of today’s report were disappointing. Industrial production rose 0.5% in March, and is now up 1.6% versus a year ago. But the gain in March was almost all due to utilities. In February, unusually warm weather pushed utility output to its lowest level in a decade. So, a return to more normal weather in March resulted in utility output recording its largest one month jump on record. However, outside the utility sector activity was overall weak, with manufacturing coming in below consensus expectations and mining up only a tepid 0.1%. Manufacturing, which excludes mining and utilities, fell 0.4% in March. The decline was due to both a 2.9% drop in the volatile auto sector as well as 0.2% drop in “core” industrial production, which is manufacturing excluding autos. Despite March’s weakness, “core” industrial production has been accelerating lately, up at a 2.4% annual rate in the past three months versus just 0.7% in the past year. We think the acceleration in core production is, in part, a lagged effect of the rebound in oil prices, which adds to the production of equipment and materials used in the energy sector. Higher energy prices are also having a direct effect on mining, which has also been accelerating, up at a 18.4% annual rate the past three months versus just 3% in the past year. Oil and gas-well drilling posted its tenth consecutive gain in March, jumping 7.6%, and now up at a massive 190.5% annual rate in the past three months. Based on other commodity prices, we think oil prices are close to “fair value” range, which should keep mining in recovery after the problems of the past two years. Although weak overseas economies will continue to be a headwind for production, we expect solid growth in the year ahead. In other recent news, the Empire State index, a measure of manufacturing sentiment in New York, fell to +5.2 in April from +16.4 in March, signaling continued improvement in the factory sector in that region but at a slower pace.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-17	Feb-17	Jan-17	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.5%	0.1%	-0.3%	1.2%	2.1%	1.6%
Manufacturing	-0.4%	0.3%	0.4%	1.2%	1.8%	0.8%
Motor Vehicles and Parts	-2.9%	1.1%	-1.0%	-10.8%	-4.6%	1.4%
Ex Motor Vehicles and Parts	-0.2%	0.3%	0.5%	2.4%	2.2%	0.7%
Mining	0.1%	2.9%	1.3%	18.4%	12.1%	3.0%
Utilities	8.7%	-5.9%	-6.7%	-16.9%	-6.2%	4.6%
Business Equipment	-0.4%	0.1%	0.0%	-1.2%	1.6%	0.7%
Consumer Goods	1.3%	-0.7%	-1.1%	-2.3%	-0.6%	1.3%
High-Tech Equipment	0.4%	-0.5%	-0.3%	-1.7%	4.6%	5.8%
Total Ex. High-Tech Equipment	0.5%	0.1%	-0.3%	1.2%	2.0%	1.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.1	75.7	75.7	75.8	75.8	75.8
Manufacturing	75.3	75.6	75.4	75.4	75.3	75.1

Source: Federal Reserve Board