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February Industrial Production / Capacity Utilization

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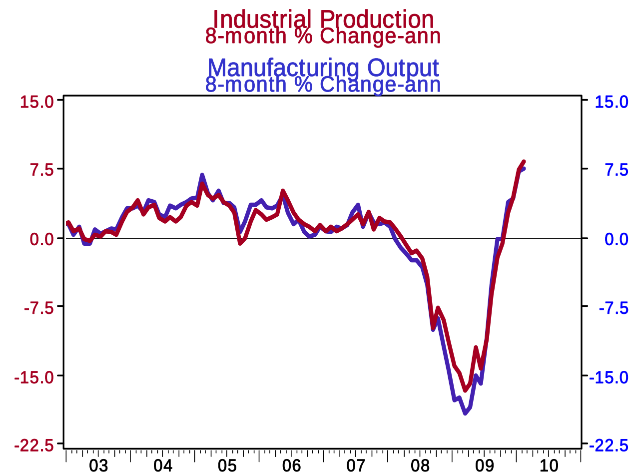
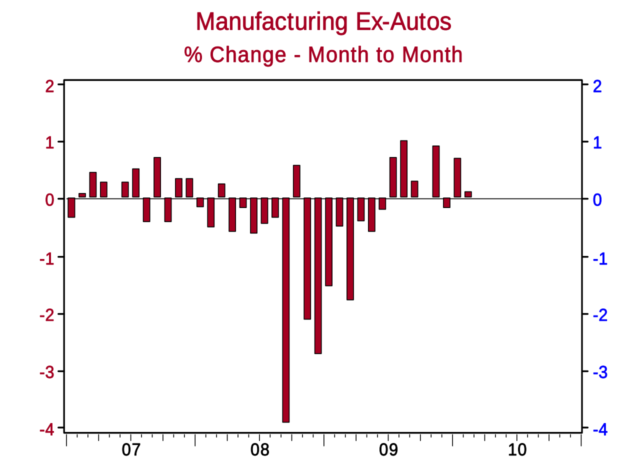
- Industrial production increased 0.1% in February versus the zero change the consensus expected. Production is up at a 6.0% annual rate in the past six months.
- Manufacturing output declined 0.2% in February but was up 0.1% excluding autos. In the past six months, total manufacturing is up at a 4.5% annual rate and up at a 3.6% rate ex-autos.
- The production of high-tech equipment increased 1.3% in February and, once again, was revised up for previous months.
- Overall capacity utilization increased to 72.7% in February, beating the consensus expected 72.5%. Manufacturing capacity utilization ticked down to 69.0%.

Implications: Even major blizzards can't hold the V-shaped recovery down. Usually, extraordinary East Coast snowstorms cause big declines in industrial production, like in January 1982 (-2%) or January 1996 (-0.7%). With the storm knocking down hours worked in the durable good sector by 1.1% in February, a big drop in production would not have been a surprise. Yet, manufacturing production fell only 0.2% in February and overall production – buoyed by electric utilities and mining – increased 0.1%. What this tells us is that the underlying trend in economic activity – what would be happening in the absence of abnormal weather – is improving rapidly and we could see a surge in production, jobs, and hours worked, in the months ahead. Inventory-to-sales ratios at retailers and wholesalers across the country are at record lows and consumer spending is rising. This means companies will continue to boost production in the months ahead. In other news this morning, the Empire State Index, a measure of manufacturing in New York, declined to 22.9 in March from 24.9 in February. However, the "guts" of the report were more positive than the headline number. All of the major sub-indexes improved. The shipments index rose to 25.6 from 15.1, the new orders index jumped to 25.4 from 8.8 and the employment index increased to 12.4 from 5.6. Get ready for more solid economic growth in the months ahead.



Sources: Federal Reserve Board /Haver Analytics



Source: Federal Reserve Board /Haver Analytics

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Feb-10	Jan-10	Dec-09	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.1%**	0.9%	0.5%	6.2%	6.0%	1.7%
Manufacturing	**-0.2%**	0.9%	-0.2%	2.8%	4.5%	2.0%
Motor Vehicles and Parts	**-4.5%**	4.8%	-0.3%	-0.6%	16.0%	22.9%
Ex Motor Vehicles and Parts	**0.1%**	0.7%	-0.2%	2.4%	3.6%	0.5%
Mining	**2.0%**	1.0%	-0.4%	10.9%	9.5%	0.2%
Utilities	**0.5%**	0.6%	5.5%	29.7%	15.4%	4.4%
Business Equipment	**0.4%**	1.5%	1.1%	13.0%	7.5%	-0.7%
Consumer Goods	**-0.4%**	0.9%	0.2%	2.8%	4.9%	2.2%
High-Tech Equipment	**1.3%**	2.2%	1.7%	23.1%	15.3%	11.1%
Total Ex. High-Tech Equipment	**0.0%**	0.9%	0.4%	5.6%	5.6%	1.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**72.7**	72.5	71.8	72.3	71.6	70.4
Manufacturing	**69.0**	69.1	68.4	68.8	68.4	67.1

Source: Federal Reserve Board