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March Industrial Production / Capacity Utilization

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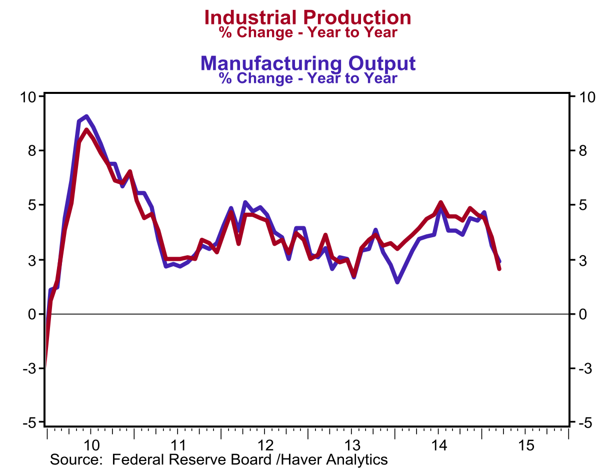
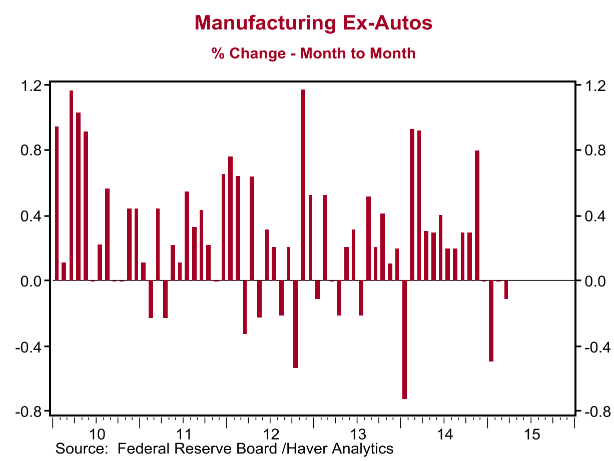
- Industrial production declined 0.6% in March, coming in below the consensus expected decline of 0.3%. Production is up 2.0% in the past year.
- Manufacturing, which excludes mining/utilities, increased 0.1% in March (-0.1% including revisions to prior months). Auto production rose 3.3% in March while non-auto manufacturing declined 0.1%. Auto production is up 5.2% versus a year ago while non-auto manufacturing is up 2.2%. Utility output fell 5.9% as weather returned to normal in March.
- The production of high-tech equipment increased 0.3% in March and is up 4.0% versus a year ago.
- Overall capacity utilization declined to 78.4% in March from 79.0% in February. Manufacturing capacity utilization was unchanged at 77.1% in March.





Implications: Outside the auto sector, industrial production was soft in March, with overall production declining 0.6%. However, most of the weakness was due to two temporary factors -- weather and the sharp drop in oil prices. Utility output slumped 5.9% in March (the largest decline since January 2006) as weather returned to normal after the coldest February for the most people since 1979. Meanwhile, the rapid decline in oil prices and the commensurate drop in oil production caused the index for "oil & gas drilling and servicing" to decline 17.5% in March. This pulled down the mining component of industrial production, which includes oil and gas exploration, by 0.7%. The good news is that energy prices look to have stabilized, so mining production should soon bottom out at a lower level. And if energy prices bounce at all, mining will bounce as well. Taking out mining and utilities gives us manufacturing, which rose 0.1% as auto output bounced back sharply while the rest of manufacturing fell about 0.1%. Lingering parts shortages due to the West Coast port strikes that ended in late February may have hampered manufacturing outside the auto sector in March. If so, that's another reason to expect a bounce in production in the months ahead as supply channels improve. One continuing bright spot is high-tech manufacturing, which increased 0.3% in March and is up 4.0% from a year ago. The fundamentals for production growth remain in place. Companies are sitting on huge cash reserves and profits are close to record highs. In addition, at 78.4%, capacity utilization remains close to the average of 78.6% over the past twenty years, so further gains in production will give companies an incentive to build out plants and buy equipment. In other manufacturing news today, the Empire State index, a measure of manufacturing sentiment in New York, came in at a surprisingly low -1.2 in April versus 6.9 in March. We suspect that's an aberration, but we will be closely watching other regional gauges on the manufacturing sector.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Mar-15	Feb-15	Jan-15	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.6%**	0.1%	-0.4%	-3.7%	0.0%	2.0%
Manufacturing	**0.1%**	-0.2%	-0.7%	-3.0%	1.2%	2.7%
Motor Vehicles and Parts	**3.3%**	-3.6%	-0.7%	-4.3%	6.1%	5.2%
Ex Motor Vehicles and Parts	**-0.1%**	0.0%	-0.5%	-2.4%	1.0%	2.2%
Mining	**-0.7%**	-1.6%	-1.7%	-15.1%	-6.0%	3.7%
Utilities	**-5.9%**	5.7%	3.2%	11.2%	3.0%	-3.6%
Business Equipment	**0.2%**	0.7%	-0.7%	0.7%	3.0%	3.2%
Consumer Goods	**-0.5%**	0.5%	0.1%	0.4%	2.9%	0.9%
High-Tech Equipment	**0.3%**	-0.1%	-0.6%	-1.4%	0.5%	4.0%
Total Ex. High-Tech Equipment	**-0.6%**	0.1%	-0.5%	-3.8%	0.2%	2.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.4**	79.0	79.1	78.8	79.2	79.2
Manufacturing	**77.1**	77.1	77.4	77.2	77.5	77.4

Source: Federal Reserve Board