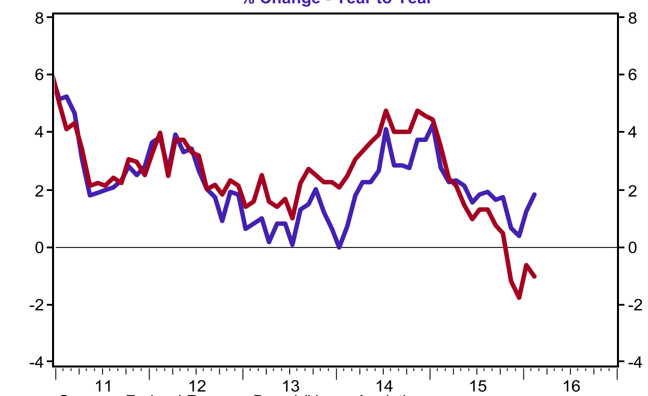
First Trust DATAWATCH

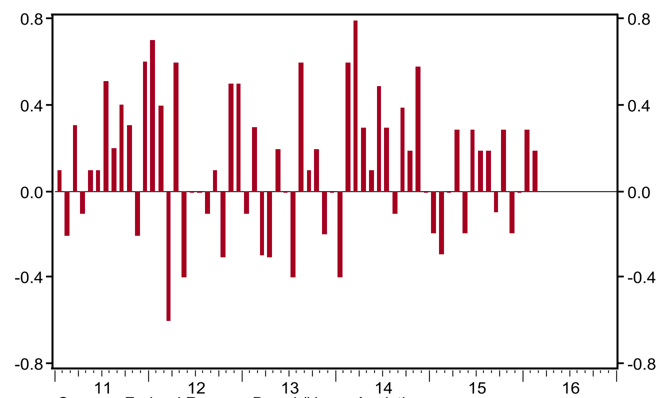
March 16, 2016 • 630.517.7756 • www.ftportfolios.com

February Industrial Production / Capacity Utilization

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

- Industrial production dropped 0.5% in February, coming in below the consensus expected decline of 0.3%. Including revisions to prior months, production fell 0.3%. Utility output declined 4.0% in February, while mining fell 1.4%.
- Manufacturing, which excludes mining/utilities, increased 0.2% in February. Auto production declined 0.1% while non-auto manufacturing increased 0.2%. Auto production is up 9.2% versus a year ago while non-auto manufacturing is up 1.3%.
- The production of high-tech equipment declined 0.1% in February and is up 1.4% versus a year ago.
- Overall capacity utilization fell to 76.7% in February from 77.1% in January. Manufacturing capacity utilization remained unchanged in February at 76.1%.





Implications: After a stronger than expected report last month, industrial production took a breather in February. However, while overall industrial output fell, manufacturing data in the report signals that any inventory problems are receding. Industrial production fell 0.5% in February, coming in below the consensus expected decline of 0.3%, and is now down 1.0% versus last year. However, the primary reason for the decline in February was a 4% drop in utility output, as warmer than usual temperatures led to drop in demand for home heating. This was the warmest February since 2000, according to NOAA. Meanwhile, mining output fell 1.4%, due to a 15.4% drop in oil and gas extraction. While mining (and energy in general) have been a drag on production over the past year, we expect activity in that sector to stabilize in the months ahead as energy prices have stopped consistently falling. Based on other commodity prices, oil prices should average at higher levels over the next several years. The best news in today's report was manufacturing, which increased 0.2% in February, and is now up 1.8% in the past year. So far this year, manufacturing is up two months in a row, the first time that's happened since early 2015. Moreover, the gain in February came despite a temporary slowdown in auto production. However, auto production is still up 9.2% versus last year and we expect further strength going forward which should provide a boost to manufacturing in the months ahead. In other words, no sign of recession. Although we don't expect production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect a gradual pick-up in activity in 2016.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Feb-16	Jan-16	Dec-15	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.5%**	0.8%	-0.5%	-0.7%	-2.2%	-1.0%
Manufacturing	**0.2%**	0.6%	-0.3%	1.9%	0.9%	1.8%
Motor Vehicles and Parts	**-0.1%**	3.5%	-2.4%	3.7%	2.2%	9.2%
Ex Motor Vehicles and Parts	**0.2%**	0.3%	0.0%	1.9%	1.0%	1.3%
Mining	**-1.4%**	-0.7%	-1.6%	-13.8%	-14.2%	-10.0%
Utilities	**-4.0%**	4.2%	-1.1%	-4.4%	-9.5%	-9.2%
Business Equipment	**0.6%**	0.7%	-1.0%	1.1%	-3.3%	-0.2%
Consumer Goods	**-0.7%**	1.7%	-0.5%	2.3%	-0.9%	1.0%
High-Tech Equipment	**-0.1%**	0.7%	0.8%	6.2%	4.4%	1.4%
Total Ex. High-Tech Equipment	**-0.5%**	0.8%	-0.5%	-0.7%	-2.2%	-1.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**76.7**	77.1	76.5	76.8	77.1	77.5
Manufacturing	**76.1**	76.1	75.7	76.0	76.0	76.0

Source: Federal Reserve Board