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March Industrial Production / Capacity Utilization

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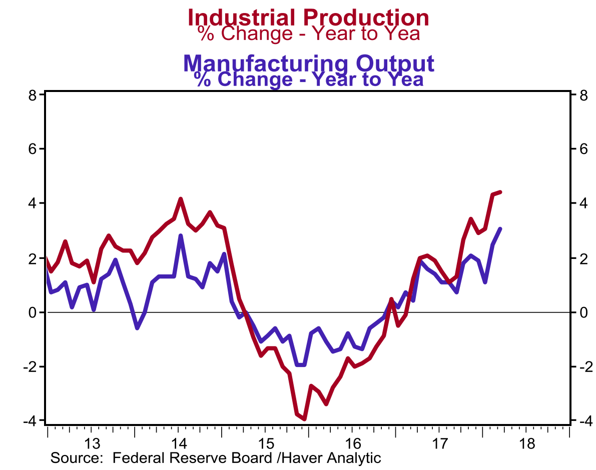
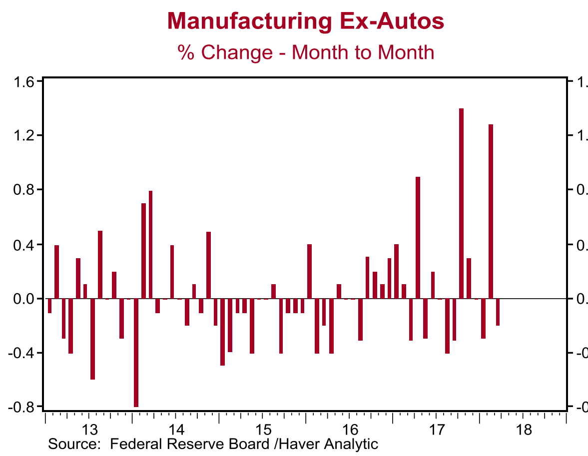
- Industrial production rose 0.5% in March (+0.7% including revisions to prior months), beating the consensus expected gain of 0.3%. Mining output increased 1.0% in March, while utilities rose 3.1%.
- Manufacturing, which excludes mining/utilities, rose 0.1% in March. Auto production rose 2.8% while non-auto manufacturing declined 0.2%. Auto production is up 8.2% versus a year ago while non-auto manufacturing is up 2.6%.
- The production of high-tech equipment rose 1.2% in March and is up 8.9% versus a year ago.
- Overall capacity utilization rose to 78.0% in March from 77.7% in February. Manufacturing capacity utilization declined to 75.9% in March from 76.0% in February.





Implications: Higher auto production, a weather-related boost from utilities, and continued gains in mining pushed industrial production higher in March, following February's strong gains. More importantly, industrial production has increased 4.4% in the past year, the largest 12-month increase since 2011. Motor vehicle production helped manufacturing eke out a 0.1% increase in March on the back of February's upwardly revised 1.5% gain, the largest monthly increase going all the way back to 2009. However, non-auto manufacturing fell 0.2% in March, which might worry some analysts. But because this drop follows a very large 1.3% jump in February, and was due to weakness in food, plastics, and textiles, we don't think it suggests any fundamental weakness in the industrial sector. Meanwhile, after a relatively warm February, utility output surged in March as temperatures around the country returned closer to normal. Given the late arrival of Spring across much of the U.S. in April, utilities look likely to provide a boost to production in next month's report as well. The other reason for growth in production in March was mining, which rose 1.0% in March on the back of healthy gains in oil and gas extraction. In the past year, mining production is up 10.8%. Drilling slowed in the second half of 2017, most likely associated with hurricanes Harvey and Irma, but remains up 17% from a year ago. In addition, the rig count has continued to rise in recent weeks, suggesting gains in mining production will continue in the months ahead. Taken as a whole, the tailwinds from tax cuts and deregulation continue to boost business investment and a general pickup in economic activity.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Mar-18**	**Feb-18**	**Jan-18**	**3-mo % Ch** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Industrial Production	**0.5%**	1.0%	-0.2%	5.4%	7.9%	4.4%
Manufacturing	**0.1%**	1.5%	-0.4%	4.7%	5.8%	3.1%
Motor Vehicles and Parts	**2.8%**	3.9%	-0.5%	27.4%	16.0%	8.2%
Ex Motor Vehicles and Parts	**-0.2%**	1.3%	-0.3%	3.2%	5.1%	2.6%
Mining	**1.0%**	2.9%	-0.9%	12.8%	15.3%	10.8%
Utilities	**3.1%**	-5.1%	2.1%	-0.4%	12.8%	5.4%
Business Equipment	**0.5%**	0.6%	0.1%	5.0%	3.5%	4.4%
Consumer Goods	**0.6%**	0.2%	0.3%	4.2%	5.7%	3.6%
High-Tech Equipment	**1.2%**	0.5%	-0.1%	6.8%	13.5%	8.9%
Total Ex. High-Tech Equipment	**0.5%**	1.0%	-0.2%	5.1%	7.8%	4.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.0**	77.7	77.1	77.6	77.3	76.7
Manufacturing	**75.9**	76.0	74.9	75.6	75.4	75.0