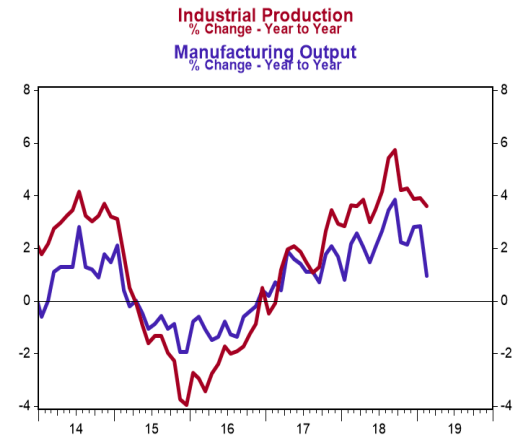


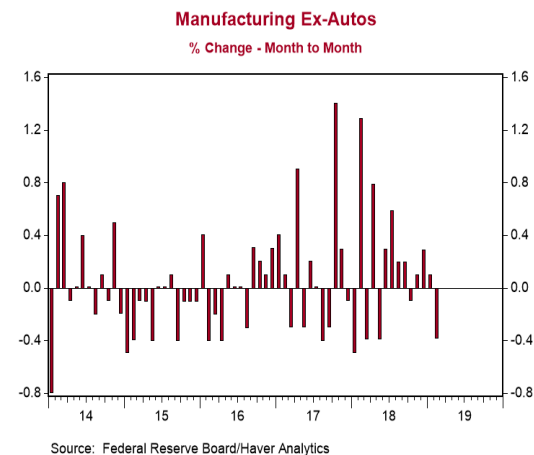
## February Industrial Production / Capacity Utilization

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- Industrial production increased 0.1% in February (+0.3% including revisions to prior months), lagging the consensus expected gain of 0.4%. Mining output rose 0.3% in February, while utilities rose 3.7%.
- Manufacturing, which excludes mining/utilities, fell 0.4% in February (-0.5% including revisions to prior months). Auto production declined 0.2%, while non-auto manufacturing fell 0.4%. Auto production is down 3.2% versus a year ago, while non-auto manufacturing is up 1.3%.
- The production of high-tech equipment rose 0.1% in February and is up 3.8% versus a year ago.
- Overall capacity utilization ticked down to 78.2% in February from 78.3% in January. Manufacturing capacity utilization declined to 75.4% in February from 75.8% in January.



**Implications:** After falling unexpectedly for the first time in eight months in January, industrial production rebounded in February, eking out a 0.1% increase. Despite the positive headline number though, the details of today’s report show there wasn’t much to like. Manufacturing activity fell for the second month in a row, dropping 0.4% after a 0.5% decline in January. However, February’s weakness was more broad-based, coming primarily from the non-auto sector, though the auto sector fell as well. This is in contrast to January’s decline which was entirely due to a 7.6% decline in autos. Further, February saw big monthly declines for both business equipment and machinery, which fell 1.0% and 1.9% respectively. That said, it looks like the true culprit behind the weakness in non-auto manufacturing in February came from nondurable goods, which tell us less about future economic growth and which fell 0.8% for the month versus only a 0.1% decline for durable goods. In the past year, the various capital goods indices continue to show healthy growth that surpasses headline industrial production, with business equipment up 3.8%, machinery up 4.4%, and high-tech equipment up 3.8%. Comparing this with the slower year-over-year growth of 1.0% for manufacturing as a whole, or non-durable goods which are dead flat, demonstrates that capital goods production remains a valuable source of strength in the sector. In turn, more capital goods should help push productivity growth higher, making it easier for the economy to grow in spite of a tight labor market. Looking outside the manufacturing sector, mining activity grew for the thirteenth month in a row in February and is now up 12.6% in the past year. Finally, utilities jumped 3.7% in February, rebounding as things returned toward normal after unseasonably warm weather in parts of the country reduced demand for heating in January. In other news this morning, the Empire State Index, which measures factory sentiment in the New York region, fell to 3.7 in March from 8.8 in February. That said, the decline masked strong readings for both the future capital expenditures and future technology spending indices, which signal continued strength for the factory sector in the year ahead.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Feb-19	Jan-19	Dec-18	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.1%</b>	-0.4%	0.1%	-0.4%	1.7%	3.6%
<b>Manufacturing</b>	<b>-0.4%</b>	-0.5%	0.6%	-1.1%	-0.2%	1.0%
<b>Motor Vehicles and Parts</b>	<b>-0.2%</b>	-7.6%	4.8%	-12.7%	-6.4%	-3.2%
<b>Ex Motor Vehicles and Parts</b>	<b>-0.4%</b>	0.1%	0.3%	0.0%	0.4%	1.3%
<b>Mining</b>	<b>0.3%</b>	0.3%	1.4%	8.3%	8.6%	12.6%
<b>Utilities</b>	<b>3.7%</b>	-1.0%	-5.2%	-10.1%	3.6%	9.0%
<b>Business Equipment</b>	<b>-1.0%</b>	-0.2%	0.9%	-1.2%	2.2%	3.8%
<b>Consumer Goods</b>	<b>-0.1%</b>	-0.7%	-0.7%	-5.8%	-0.9%	0.1%
<b>High-Tech Equipment</b>	<b>0.1%</b>	-0.7%	-0.2%	-3.4%	-4.8%	3.8%
<b>Total Ex. High-Tech Equipment</b>	<b>0.2%</b>	-0.4%	0.1%	-0.4%	1.7%	3.6%
<b>Cap Utilization (Total)</b>	<b>78.2</b>	78.3	78.7	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>75.4</b>	75.8	76.2	78.4	78.5	78.2
				75.8	75.9	75.8

Source: Federal Reserve Board