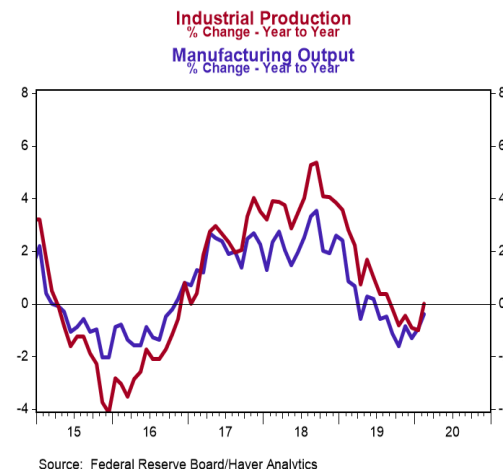


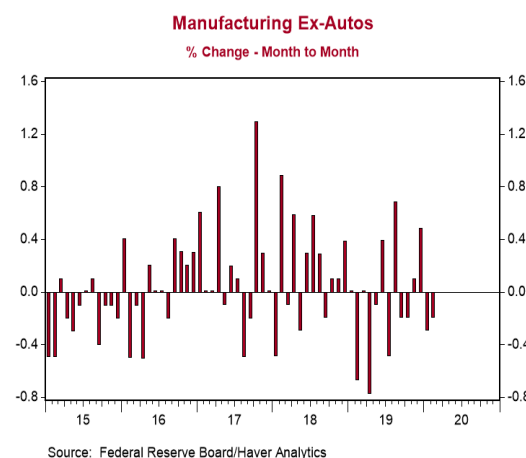
February Industrial Production / Capacity Utilization

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- Industrial production increased 0.6% in February, beating the consensus expected gain of 0.4%. Mining output declined 1.5% in February, while utilities rose 7.1%.
- Manufacturing, which excludes mining/utilities, increased 0.1% in February. Auto production rose 3.4%, while non-auto manufacturing fell 0.2%. Auto production is up 1.3% versus a year ago, while non-auto manufacturing is down 0.6%.
- The production of high-tech equipment fell 0.2% in February but is up 7.0% versus a year ago.
- Overall capacity utilization increased to 77.0% in February from 76.6% in January. Manufacturing capacity utilization remained unchanged in February.



Implications: Industrial production rebounded sharply in February, but the underlying details of today’s report weren’t as impressive as the headline number. Utilities output jumped 7.1%, the largest monthly gain in nearly three years, as temperatures returned to normal following unseasonably warm weather in January. The other source of strength in February was the volatile auto sector, where production rose 3.1%. Meanwhile, ongoing problems at Boeing surrounding the 737 MAX continued to hit the aerospace sector, where production fell 3.6% in February. Put it all together, and manufacturing as a whole managed to eke out a small gain of 0.1% in February. Manufacturing activity will likely weaken considerably in the next few months as the coronavirus disrupts supply chains and public safety measures reduce the number of hours worked. That said, we expect a rebound in activity in the second half of 2020 after the virus has been contained. The USMCA has been passed and a Phase One trade deal with China has been signed, which, along with pent-up demand from the first half of this year, should be a tailwind for the factory sector well into 2021. Finally, mining output fell 1.5% in February, due primarily to a decline in oil and gas extraction. The price of WTI crude is down more than 50% since the beginning of January, pushing below the break-even level of many US producers, so we expect more weakness going forward. The crude oil market is currently getting hit from both sides, as global disruptions from the coronavirus hit demand, and Saudi Arabia and Russia boost supply on a quixotic quest to wash out US competitors. Later this year, as the pandemic is dealt with, and OPEC eventually works out some sort of deal on production, prices will rebound, with mining activity rising close behind. In other recent manufacturing news, the Empire State Index, which measures factory sentiment in the New York region, fell to -21.5 in March from +12.9 in February. This is the largest monthly drop on record and brings the index to its lowest reading since 2009. Look for similar declines in the other regional Fed manufacturing surveys as the initial hit from the Coronavirus makes its way into the data.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Feb-20	Jan-20	Dec-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.6%	-0.5%	-0.4%	-1.4%	-0.5%	0.0%
Manufacturing	0.1%	-0.2%	0.1%	0.0%	-0.6%	-0.4%
Motor Vehicles and Parts	3.4%	1.4%	-4.7%	-0.3%	-0.8%	1.3%
Ex Motor Vehicles and Parts	-0.2%	-0.3%	0.5%	0.0%	-0.6%	-0.6%
Mining	-1.5%	1.0%	0.8%	1.2%	-1.0%	2.1%
Utilities	7.1%	-4.8%	-5.7%	-14.8%	1.5%	0.4%
Business Equipment	-0.4%	-3.0%	-0.4%	-14.1%	-7.1%	-3.7%
Consumer Goods	1.7%	-1.1%	-1.3%	-3.0%	1.0%	0.2%
High-Tech Equipment	-0.2%	0.6%	1.0%	5.9%	7.9%	7.0%
Total Ex. High-Tech Equipment	0.6%	-0.6%	-0.5%	-1.8%	-0.7%	-0.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.0	76.6	77.1	76.9	77.1	77.5
Manufacturing	75.0	75.0	75.2	75.1	75.0	75.3

Source: Federal Reserve Board