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February Industrial Production / Capacity Utilization

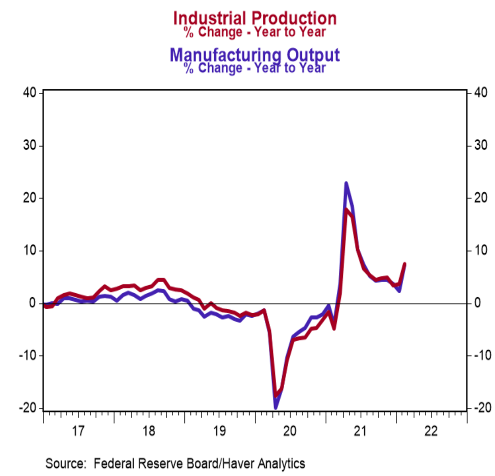
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Bryce Gill – Economist

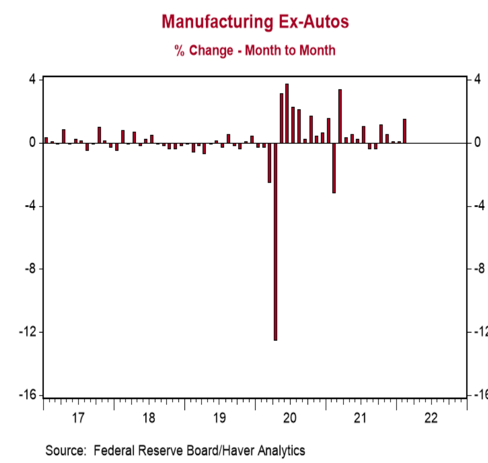
- Industrial production increased 0.5% in February, matching consensus expectations. Utilities output fell 2.7% in February, while mining increased 0.1%.

- Manufacturing, which excludes mining/utilities, increased 1.2% in February. Auto production fell 3.5%, while non-auto manufacturing rose 1.5%. Auto production is unchanged in the past year, while non-auto manufacturing is up 7.9%.

- The production of high-tech equipment rose 1.7% in February and is up 7.7% versus a year ago.

- Overall capacity utilization increased to 77.6% in February from 77.3% in January. Manufacturing capacity utilization rose to 78.0% in February from 77.1%.





Implications: Industrial activity continued its V-shaped recovery in February, posting a second gain on the heels of January's increase which was the strongest in nearly a year. Looking at the details, manufacturing output was the main contributor to today's headline gain, rising 1.2%. Notably, all of the gain came from manufacturing outside the auto sector, where activity rose 1.5%. Auto manufacturing continued to be a headwind, falling for the third month in a row, showing that supply-chain issues like the shortage of semiconductors remains a problem. Meanwhile, the mining sector (think oil rigs in the Gulf) posted a tepid 0.1% gain in February. We expect stronger gains from this sector in the months ahead, with oil prices currently above $100 a barrel for the first time since 2014. According to Baker Hughes, the total number of oil and gas rigs in operation in the US is still roughly 16% below pre-pandemic levels. Finally, the utilities sector, which is volatile from month to month and largely dependent on weather, fell 2.7% in February. This was expected following January's gain, which was the largest for this category since records started in 1939. Overall, we expect a continued upward trend in industrial production in 2022. Business inventories remain lean, order backlogs are elevated, and demand continues to outstrip supply. For example, today's gain puts industrial production 2.3% above pre-pandemic levels. Meanwhile, yesterday's report on retail sales showed that even after adjusting for inflation, "real" retail sales are up 14.1% over the same time period. Ongoing issues with supply chains and labor shortages are hampering a more robust rise in activity, with job openings in the manufacturing sector currently more than double pre-pandemic levels. This mismatch between supply and demand, shows why inflation has accelerated so sharply. Finally, in other manufacturing news this morning, the Philadelphia Fed Index, a measure of factory sentiment in that region, surged to +27.4 in March from +16.0 in February.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Feb-22**	**Jan-22**	**Dec-21**	**3-mo % Ch annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Industrial Production	**0.5%**	1.4%	-0.4%	6.4%	5.0%	7.5%
Manufacturing	**1.2%**	0.1%	-0.1%	4.0%	5.1%	7.3%
Motor Vehicles and Parts	**-3.5%**	-0.3%	-1.0%	-18.0%	-0.4%	0.0%
Ex Motor Vehicles and Parts	**1.5%**	0.0%	0.0%	6.1%	5.5%	7.9%
Mining	**0.1%**	1.3%	-0.1%	5.2%	7.0%	17.3%
Utilities	**-2.7%**	10.3%	-2.5%	19.7%	1.5%	-1.3%
Business Equipment	**2.0%**	-0.5%	-0.2%	5.1%	4.0%	6.2%
Consumer Goods	**-0.4%**	2.4%	-0.6%	5.7%	3.2%	3.4%
High-Tech Equipment	**1.7%**	0.0%	0.5%	9.3%	11.1%	7.7%
Total Ex. High-Tech Equipment	**0.5%**	1.4%	-0.4%	6.1%	4.8%	7.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.6**	77.3	76.3	77.1	76.5	76.0
Manufacturing	**78.0**	77.1	77.1	77.4	77.0	76.3

Source: Federal Reserve Board