

## Economics Group

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# Solid Improvement in Manufacturing Production

***Don't sweat the flat reading for industrial production. The second-warmest February on record resulted in a second consecutive drop in utilities, but manufacturing output increased for a sixth straight month.***

### Continued Firming in Manufacturing

Going into today's report, there was some justification for anticipating an increase in manufacturing. The ISM's index for manufacturing business activity rose in February to its highest level since 2011. We already knew from the jobs report that manufacturers added 28,000 new employees to their payrolls in February—matching the biggest monthly increase in three and a half years. Despite the increased number of workers, the average weekly hours for the manufacturing sector held steady at 40.8, which matches the highest figure in the past year.

Manufacturing output, which comprises more than three quarters of all industrial output, increased 0.5 percent in February. This extends the winning streak to six months and lifts the three-month annualized growth rate for manufacturing production to its fastest clip since 2014. Given the momentum for production activity and employment in the sector, we remain confident that gradual improvement in manufacturing will continue.

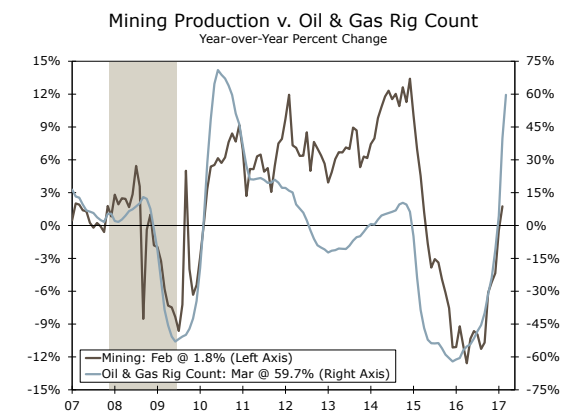
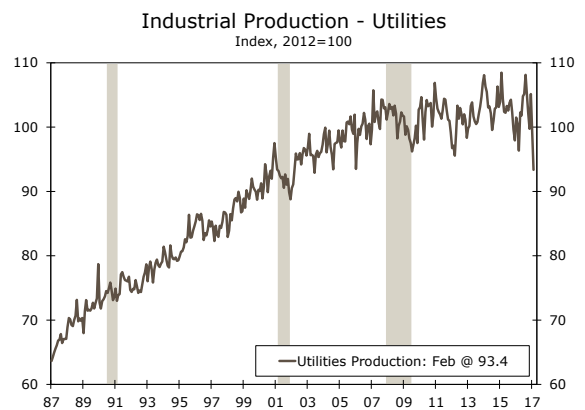
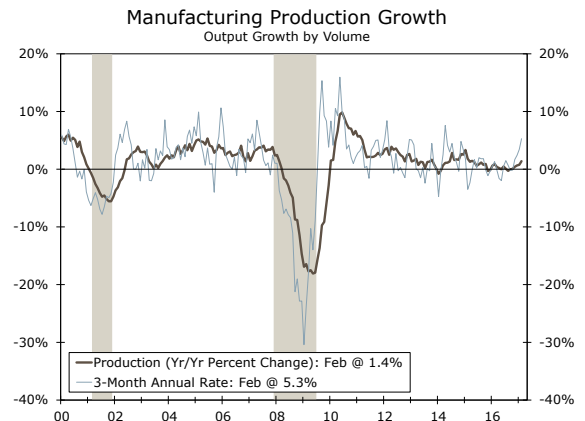
### February: Not a Month You Typically Say “Open the Windows”

Utilities output fell 5.7 percent in February. According to the National Weather Service, it was the second-warmest February on record. In fact, the NOAA maintains a residential energy demand temperature index to gauge household utility needs. That measure fell to zero in February; that is the only time it has been zero during February in the 123-periods of record. With two consecutive monthly declines of more than 5 percent and much cooler weather so far in March, we would not be surprised to see a surge in utilities output next month.

Mining activity was up 2.7 percent in February. This adds to the 2.2 percent increase in January and was sufficient to lift the three-month annualized growth rate to its fastest pace since before the bottom fell out from underneath energy prices in the middle of 2014. The price of a barrel of crude oil rose above \$54 for the first time since 2015 during the month and the rig count has jumped along with it. The CRB index, a price basket of commodities, rose to its highest level since 2014 in February. Prices have been up and down so far in March, but continued firming would be supportive of the recovery in the mining sector.

### Little Inflationary Pressure from Manufacturing

The Federal Reserve raised its benchmark lending rate earlier this week, citing a firm labor market and an inflation environment that is consistent with its 2.0 percent target. Despite recent improvements in manufacturing, there is still a fair amount of slack in this sector. Capacity utilization at 75.4 percent in February remains well-below its longer-run average of 79 percent.



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