



Economics Group

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Industrial Production Notches a Decent Gain in March

Industrial production rose 0.5 percent in March. Utilities accounted for more than half the gain, but mining and manufacturing, led by autos, also expanded.

Turning Up the Heat

Industrial production expanded 0.5 percent in March, which was slightly ahead of expectations for a 0.3 percent increase. What's more, March's gain followed a 1.0 percent rise in February, which helped output expand at a 4.5 percent annualized clip over the first quarter.

More than half of March's gain can be traced to a rebound in utilities output. Utilities, which account for a little over 10 percent of industrial production, rose 3.0 percent last month. The average temperature for the contiguous U.S. was fairly typical for March, but that followed an above-average February in which heating needs were more modest than usual. Moreover, the heavily populated Northeast and South faced reoccurring winter storms and below-average temperatures.

Old Favorites Reemerge As Drivers of Industrial Production

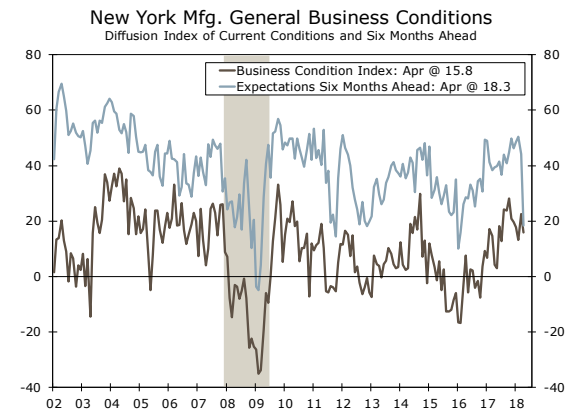
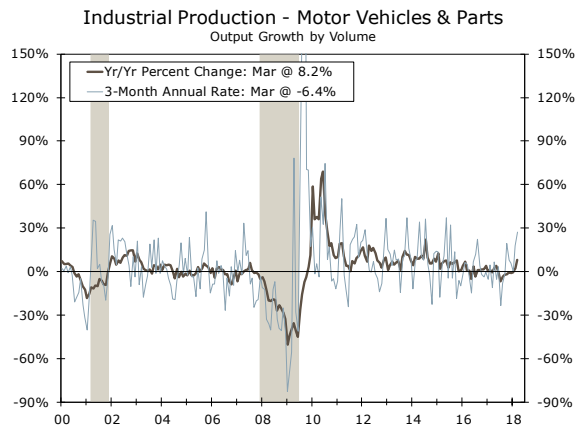
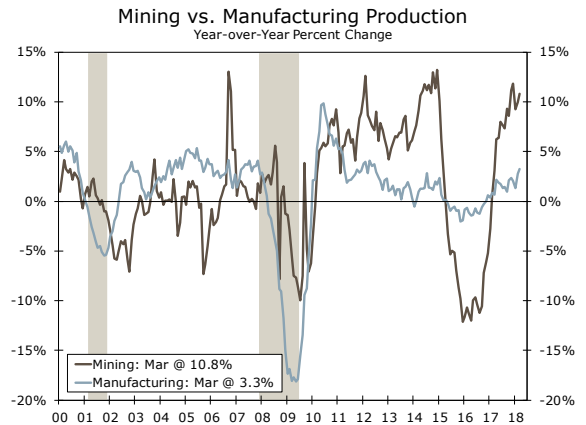
Meanwhile the mining sector continued its recovery from the sharp downturn that followed the collapse in oil prices. Mining output rose 1.0 percent and is up 10.8 percent over the past year. Although only about 15 percent of the index, the sector is once again providing a sizeable contribution to growth in the industrial sector.

Manufacturing output was the weakest spot in today's report, increasing just 0.1 percent. That gain comes on the heels of an upwardly revised 1.5 percent rise in February, however, which is now the largest monthly gain since the economy was coming out of recession in 2009. Supporting last month's increase was a 2.7 percent jump in motor vehicles and parts production. After having stalled through much of 2016 and 2017, production has ramped back up in recent months as sales have improved. However, with inventories backing up on dealer lots again, we are skeptical such strength can be maintained as the year progresses.

More Temperate Growth Ahead?

The fact that the manufacturing sector was able to notch a gain on top of February's substantial increase suggests that, overall, the manufacturing sector remains in good shape. In addition, not only did core capital goods orders rebound solidly in February, but the ISM manufacturing index remains near its cycle highs.

The most recent gauges of factory activity point to some cooling, however. The New York Fed's Empire State Manufacturing Survey, the first of the regional PMIs released for April, eased nearly 7 points to 15.8 for the current month. We are reluctant to read heavily into the monthly moves of any single regional PMI, particularly as the New York region was still battling with unusually harsh weather for this time of year. Yet, a sharp drop in expectations for the next six months highlights the risk of manufacturing activity easing in the coming months as the sector faces increased uncertainty surrounding trade dynamics.



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