March 16, 2018

Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283
Sarah House, Senior Economist
sarah.house@wellsfargo.com • (704) 410-3282

Manufacturing Production Notches A Solid Gain in February

After some middling numbers in recent months for the manufacturing sector, today's 1.1 percent gain for industrial production is an indication of the long-awaited convergence with the more upbeat survey data.

Manufacturing Output Finally Improves

After a few lackluster months, manufacturing production picked up in earnest in February with a 1.2 percent monthly increase. All major categories were higher as well, with a notable 3.9 percent pop in motor vehicle and parts production. Even the sub-categories were broadly in positive territory, with only electrical equipment and petroleum & coal products posting declines on the month. By market group, every major category improved in February.

The prior month's data for manufacturing production was revised to show a 0.2 percent decline after an initial estimate of no change for January. But the 1.2 percent increase reported today for February handily exceeded the 0.5 percent consensus expectation for factory output.

In recent months, there has been a split between hard and soft data, with most of the purchasing manager surveys and small business confidence measures at or near cycle highs, while actual output measures have been flat or slightly down. Our mantra throughout this period is that we would eventually see convergence in the data, so today's better-than-expected outturn for manufacturing production is a step in the right direction.

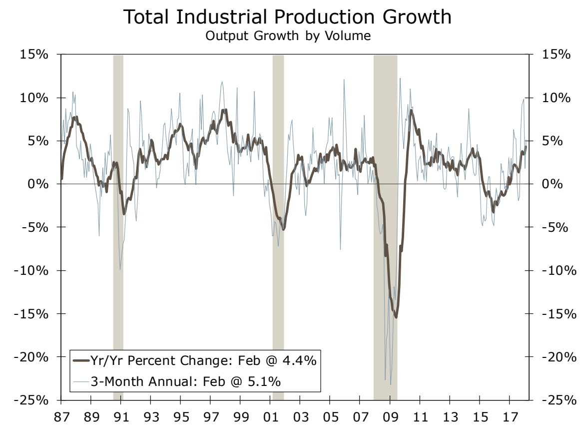
Utilities and Mining Offset One Another

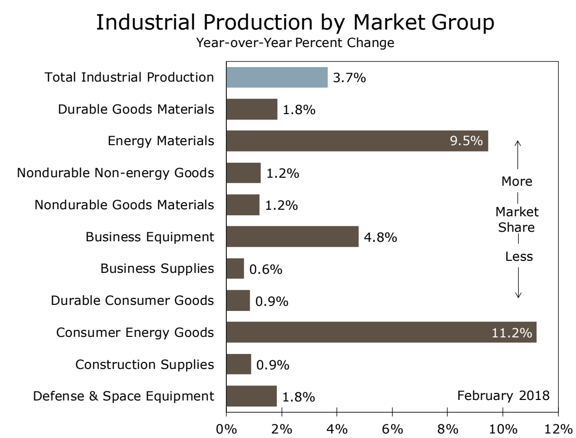
It is not uncommon for utilities and mining to introduce some additional volatility into the industrial production data. In February, these components more or less cancelled each other out. Mining output surged 4.3 percent. That is the best monthly increase in almost 10 years for this category, which comprises about 15 percent of all industrial output.

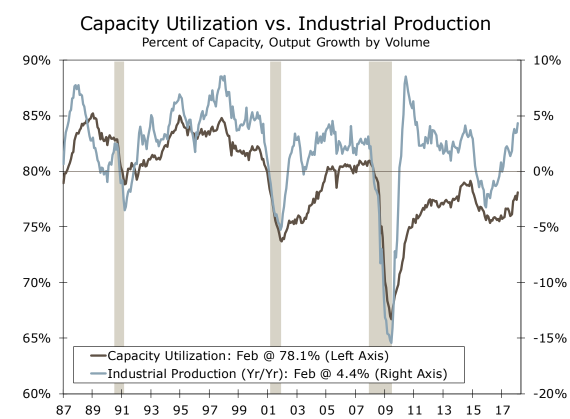
That gain in mining was swamped by an even larger move in the opposite direction in utilities output. Utilities make up between 10 and 11 percent of output, and posted a decline of 4.7 percent in February. According to National Weather Service data, much of the East was exceptionally warm in February with eight states in the region reporting the warmest February on record.

Capacity Utilization at Three-Year High

In the current economic cycle, overall capacity utilization peaked in November 2014 at 79.2 percent. Most of the improvement in the build-up to that cycle high came from the mining sector, as high oil and commodity prices at the time led to capacity constraints, and later, when prices fell, led to freed-up capacity. The more recent improvement is partly attributable to rising utilization at the county's mines, but it is also reflecting some tightening in the factories as well. Manufacturing capacity utilization hit a fresh cycle-high in February of 76.9 percent. That is still below the prior cycle high, but a bit above the 20-year average of 75.5 percent. It is still a bit early to worry about CPI inflation pressure from the manufacturing sector, but it is consistent with the comments about pricing that we have noted in recent ISM reports.







Source: Federal Reserve Bank of New York, Federal Reserve Board and Wells Fargo Securities

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(704) 410-3156	michael.d.pugliese@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704)410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

WELLS FARGO SECURITIES