



# Economics Group

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## 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.

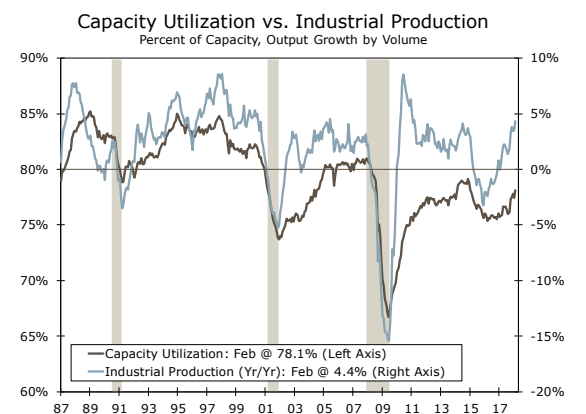
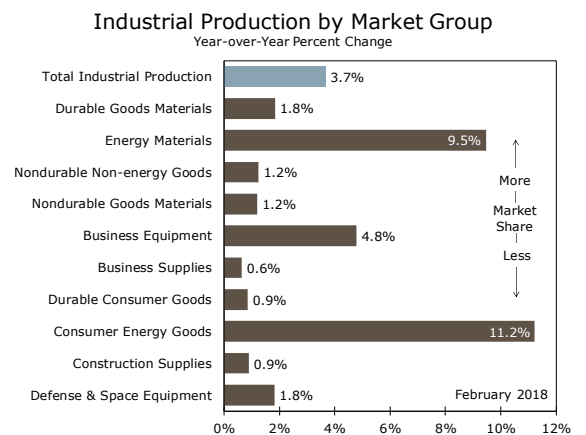
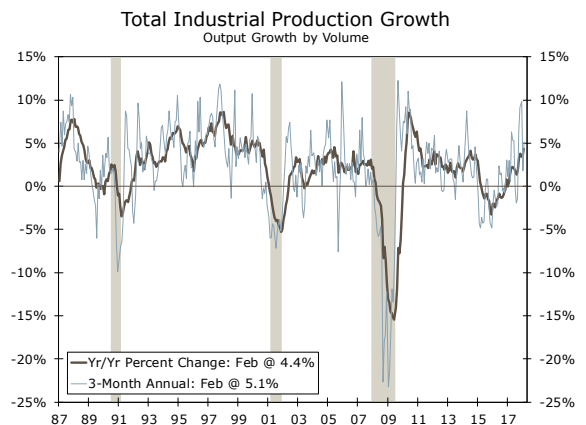
### Utilities and Mining Offset One Another

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.



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