



Economics Group

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Crummy Details Underneath Industrial Production's Gain

Industrial production rose 0.5 percent in March, but the gain was entirely driven by a surge in utilities. Manufacturing declined 0.4 percent, although we believe fundamentals still support the sector's expansion.

Utilities Whipsaw

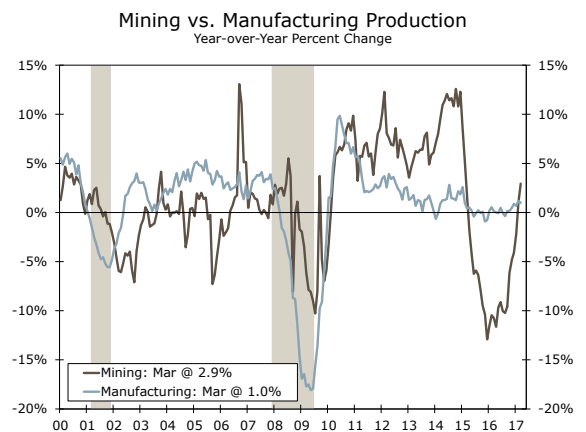
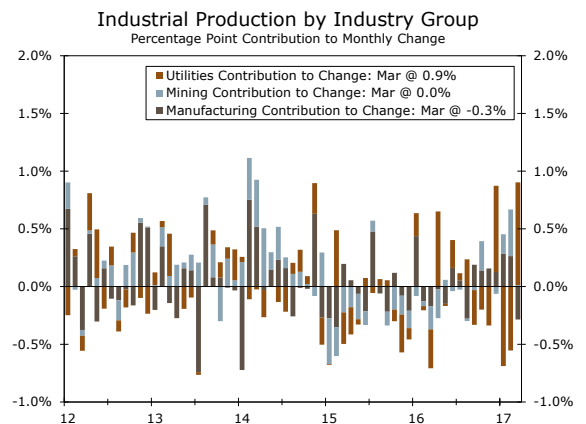
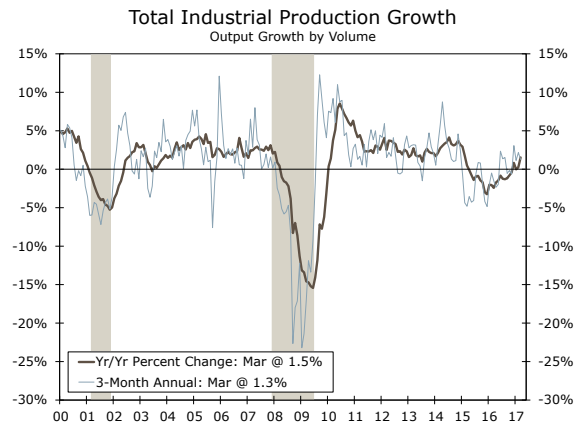
At first glance, the 0.5 percent rise in industrial production looks pretty solid, notching the second largest increase for the series in more than a year. However, a surge in utilities output accounted for nearly the entirety of the gains. After the second warmest February on record led to a 5.8 percent decline utilities production, temperatures in the lower-48 returned to more seasonal norms in March. A late season snow storm in the Northeast and above-average temperatures in the Southwest drove utilities output up 8.6 percent. At about 11 percent of total index, utilities alone boosted the headline by 0.9 percentage points.

Mining output was virtually unchanged over the month, inching up just 0.1 percent. The oil and gas industry continued to make a comeback despite oil prices wobbling over the month. Output for oil and gas extraction was up 0.7 percent in March and drilling for oil and gas wells rose nearly 8 percent, which was just enough to offset sizeable drops in coal (down 14 percent month-over-month) and nonmetallic mineral mining (down 3.6 percent).

Malaise Returns to Manufacturing?

Hiding underneath the headline's apparent strength was a 0.4 percent decline in manufacturing production. The retreat follows six straight months of gains, but leaves factory output up 1.0 percent over the past year. Notable within the manufacturing sector was a 3.0 percent decline in motor vehicle and parts output. The pullback in autos production coincides with a sharp drop-off in sales in March. Already inventories were elevated heading into the month (the inventory-to-sales ratio at motor vehicles and parts dealers jumped to the second highest level since the recession in February). As a result, the decline in production should at least alleviate the growing inventory glut and help restrain the industry's use of incentives to drive sales. Excluding autos, however, manufacturing output still slipped 0.2 percent with declines across most durable and nondurable sub-industries.

The factory sector has been one area where the relationship between "hard" and "soft" survey data has held up relatively well in recent months, with both pointing to upward momentum. While today's industrial production figures and latest PMI readings from the ISM and Empire State Manufacturing Survey suggest some cooling, we still look for manufacturing output to expand in the coming months. The export environment for U.S. producers has improved with a pickup in global growth and relatively stable value of the dollar (at least compared to 2014-2015), while rising profits and wage pressures should help to revive business investment.



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