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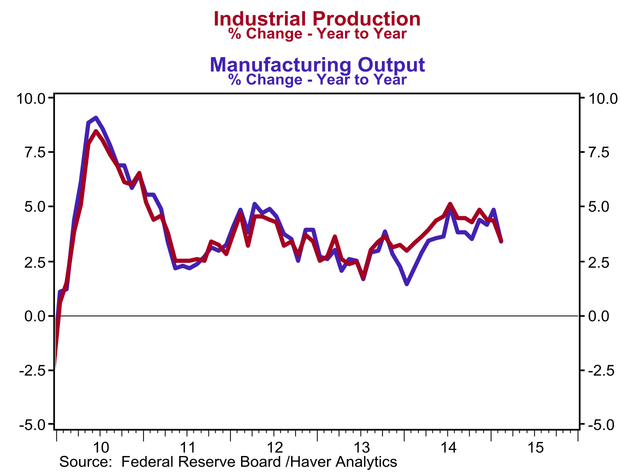
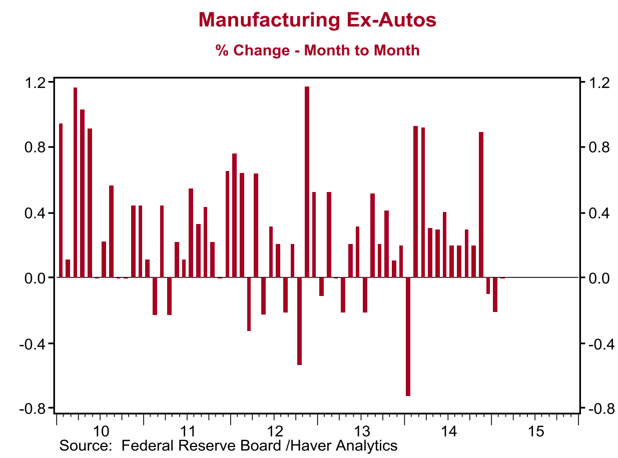
February Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Industrial production rose 0.1% in February, but was down 0.4% including revisions to prior months, coming in below the consensus expected gain of 0.2%. Production is up 3.4% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.3% in February (-0.9% including revisions to prior months). Auto production declined 3.0% in February while non-auto manufacturing was unchanged. Auto production is up 2.9% versus a year ago while non-auto manufacturing is up 3.5%.
- The production of high-tech equipment slipped 0.2% in February but is up 4.5% versus a year ago.
- Overall capacity utilization declined to 78.9% in February from 79.1% in January. Manufacturing capacity utilization fell to 77.3% in February.





Implications: Today's report on industrial production was buffeted by three major issues: bad weather, west coast port strikes, and lower oil prices. Lucky for us, the effects of these issues will be temporary. According to the government's weather service, this February was the coldest for the most people since 1979. As a result, utility output surged 7.3%, the largest monthly gain ever recorded going back to 1972! But, while raising utility production, harsh winter weather made it tougher on the manufacturing sector. Manufacturing fell 0.3% as auto output dropped sharply and the rest of manufacturing showed no change. The west coast port strikes hurt manufacturing as well. For example, Honda said they had to stop or reduce production on multiple days at six facilities because of parts shortages in February. The third key issue is lower oil prices, which helped cut mining (which includes oil and gas exploration) by 2.6%, the largest drop in any month since the Panic of 2008. Indexes for coal mining as well as oil & gas well drilling and servicing accounted for the majority of the drop. Energy prices remain low, but even if they stay here, mining production should soon bottom out. And if energy prices bounce at all, mining will bounce as well. Given the end of the port strikes and a return to more normal weather patterns, industrial production is very likely to snap back in March and continue growing in the year ahead. Companies are sitting on huge cash reserves and profits are at record highs. In addition, at 78.9%, capacity utilization remains higher than the average of 78.6% over the past twenty years, so further gains in production will give companies an incentive to build out plants and buy equipment. In other manufacturing news today, the Empire State index, a measure of manufacturing sentiment in New York, came in at a moderate 6.9 in March versus 7.8 in February.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Feb-15	Jan-15	Dec-14	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.1%**	-0.3%	-0.2%	-1.9%	2.5%	3.4%
Manufacturing	**-0.3%**	-0.3%	-0.1%	-2.7%	2.0%	3.7%
Motor Vehicles and Parts	**-3.0%**	-0.7%	-1.3%	-18.1%	-2.9%	2.9%
Ex Motor Vehicles and Parts	**0.0%**	-0.2%	-0.1%	-1.2%	2.2%	3.5%
Mining	**-2.6%**	-1.3%	2.0%	-7.1%	-4.5%	5.3%
Utilities	**7.3%**	0.9%	-5.0%	11.9%	24.7%	1.2%
Business Equipment	**-0.3%**	0.4%	-1.3%	-4.6%	2.0%	4.0%
Consumer Goods	**1.0%**	-0.1%	-0.7%	0.8%	6.1%	2.2%
High-Tech Equipment	**-0.2%**	-0.5%	-0.6%	-4.6%	1.1%	4.5%
Total Ex. High-Tech Equipment	**0.1%**	-0.3%	-0.2%	-1.5%	2.8%	3.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.9**	79.1	79.4	79.1	79.3	79.2
Manufacturing	**77.3**	77.6	77.9	77.6	77.6	77.4

Source: Federal Reserve Board