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March Industrial Production / Capacity Utilization

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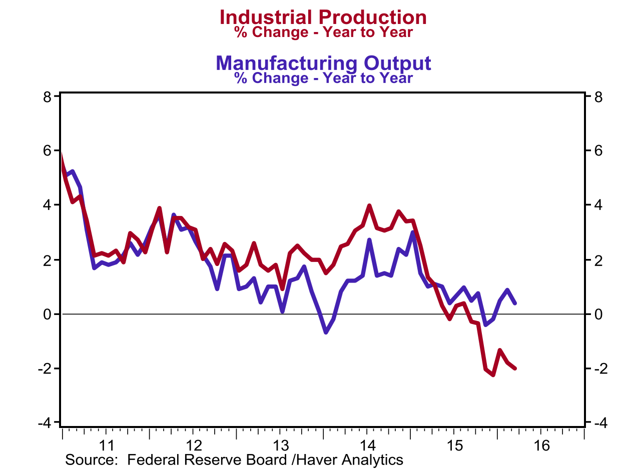
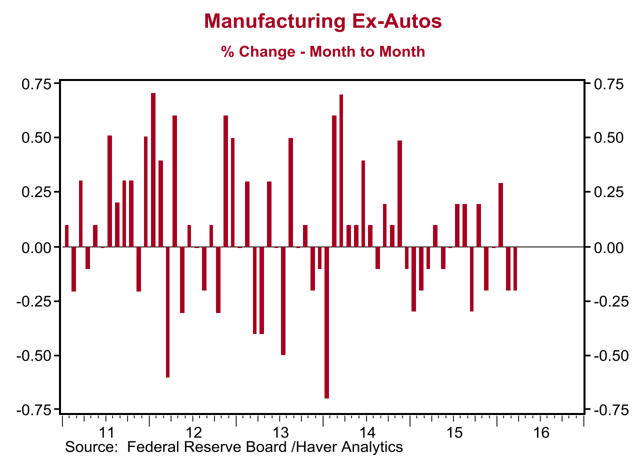
- Industrial production dropped 0.6% in March, coming in below the consensus expected decline of 0.1%. Including revisions to prior months, production fell 0.7%. Utility output declined 1.1% in March, while mining fell 2.9%.
- Manufacturing, which excludes mining/utilities, declined 0.3% in March. Auto production declined 1.6% while non-auto manufacturing fell 0.2%. Auto production is up 5.0% versus a year ago while non-auto manufacturing is now unchanged.
- The production of high-tech equipment increased 0.5% in March and is up 2.1% versus a year ago.
- Overall capacity utilization fell to 74.8% in March from 75.3% in February. Manufacturing capacity utilization fell to 75.1% in March from 75.4% in February.





Implications: March's report on industrial production was ugly, with nearly all sectors posting declines, and the biggest drags coming from auto production and mining. Industrial production fell 0.6% in March, coming in below the consensus expected decline of 0.1%, and is now down 2% versus last year. One of the big contributions to the drop in March was weakness in manufacturing, which fell 0.3%. However, this was led by a drop in auto production, which we believe will be temporary. Even though auto production fell 1.6% in March, it's up 5% from a year ago and was up at a 7.6% annual rate in the first quarter as a whole. Meanwhile, mining output fell 2.9%, due to an 8.5% drop in oil and gas extraction. While mining (and energy in general) have been a drag on production over the past year, we expect activity in that sector to stabilize in the months ahead as energy prices have stopped falling. Based on other commodity prices, oil prices should average at higher levels over the next several years. Further, while utilities fell 1.1% in March, this was due to unusually mild weather in much of the country. As weather patterns return to normal, utility output should bounce in the months ahead. The one bright spot in today's report was the production of high-tech equipment, which increased 0.5% in March, and is up 2.1% in the past year. Although we don't expect overall production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect a gradual pick-up in activity in 2016. One sign of this is that in other news today, the Empire State index, a measure of manufacturing sentiment in New York, rose sharply to +9.6 in April, well above the consensus expected +3.0. This April data shows that production should turn upward in the next few months and that positive readings for regional surveys in March were not a fluke.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Mar-16	Feb-16	Jan-16	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.6%**	-0.6%	0.5%	-2.7%	-3.6%	-2.0%
Manufacturing	**-0.3%**	-0.1%	0.4%	0.0%	0.0%	0.4%
Motor Vehicles and Parts	**-1.6%**	0.8%	2.4%	6.3%	1.8%	5.0%
Ex Motor Vehicles and Parts	**-0.2%**	-0.2%	0.3%	-0.4%	-0.2%	0.0%
Mining	**-2.9%**	-1.0%	-1.6%	-19.8%	-18.7%	-13.0%
Utilities	**-1.1%**	-3.6%	3.3%	-6.0%	-14.6%	-7.7%
Business Equipment	**-0.3%**	0.3%	0.0%	0.0%	-4.2%	-1.7%
Consumer Goods	**-0.3%**	-0.8%	1.5%	1.6%	-1.0%	0.1%
High-Tech Equipment	**0.5%**	0.3%	0.5%	5.5%	4.7%	2.1%
Total Ex. High-Tech Equipment	**-0.7%**	-0.6%	0.5%	-3.1%	-4.0%	-2.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**74.8**	75.3	75.8	75.3	75.6	76.1
Manufacturing	**75.1**	75.4	75.5	75.3	75.4	75.5

Source: Federal Reserve Board