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February Industrial Production / Capacity Utilization

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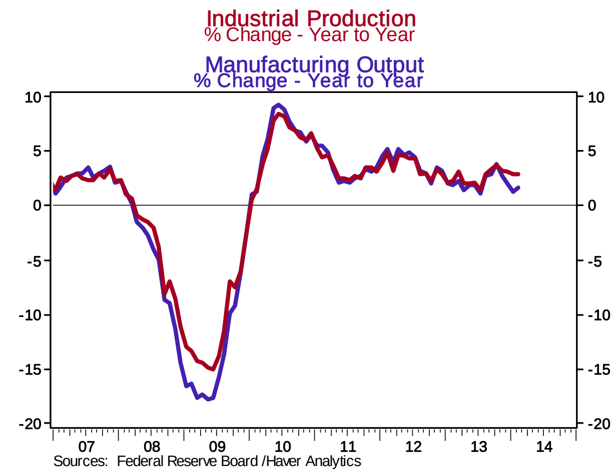
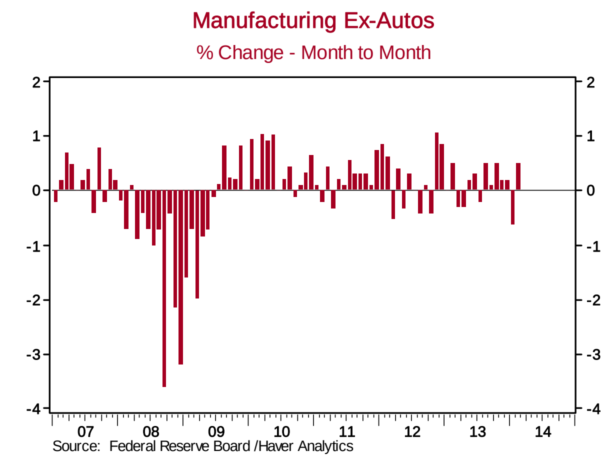
- Industrial production increased 0.6% in February, easily beating the consensus expected gain of 0.2%. Production is up 2.8% in the past year.
- Manufacturing, which excludes mining/utilities, increased 0.8% in February (+0.7% with revisions to prior months). Auto production rose 4.9% in February while non-auto manufacturing increased 0.5%. Auto production is up 5.7% versus a year ago while non-auto manufacturing is up 1.2%.
- The production of high-tech equipment rose 0.9% in February and is up 7.8% versus a year ago.
- Overall capacity utilization increased to 78.8% in February from 78.5% in January. Manufacturing capacity rose to 76.4% in February.





Implications: Despite unusually brutal winter weather, the hardy people of the American heartland adapted and found a way to increase industrial production in February. Overall industrial output rose 0.6%, led by strong gains for automakers. Manufacturing outside the auto sector also rebounded, rising 0.5% in February after a 0.6% tumble in January. Expect more healthy gains in the next couple of months as weather patterns (hopefully!) return to normal. Overall production is up a respectable 2.8% from a year ago. We expect continued gains in production as the housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. In particular, note that the output of high-tech equipment is up 7.8% from a year ago, signaling companies' willingness to upgrade aging equipment from prior years. Capacity utilization was 78.8% in February, very close to the average of 78.9% over the past twenty years. As a result, further gains in production in the year ahead should push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing that companies have the ability to make these investments. In other news this morning, the Empire State index, a measure of factory sentiment in New York, rose to +5.6 in March from +4.5 in February. On the housing front, the NAHB index, which measures confidence among home builders, came in at 47 in March, below the consensus expected 50, but up 1 point from February.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Feb-14**	**Jan-14**	**Dec-13**	**3-mo % Ch** *annualized*	**6-mo % Ch.** *annualized*	**Yr to Yr** *% Change*
Industrial Production	**0.6%**	-0.2%	0.0%	1.6%	4.1%	2.8%
Manufacturing	**0.8%**	-0.9%	0.2%	0.4%	2.7%	1.6%
Motor Vehicles and Parts	**4.9%**	-5.2%	0.0%	-2.5%	6.1%	5.7%
Ex Motor Vehicles and Parts	**0.5%**	-0.6%	0.2%	0.4%	1.9%	1.2%
Mining	**0.3%**	0.6%	-0.5%	1.6%	3.2%	6.1%
Utilities	**-0.2%**	3.7%	-0.9%	10.8%	21.2%	8.2%
Business Equipment	**1.3%**	0.4%	-0.5%	5.1%	4.7%	2.8%
Consumer Goods	**0.8%**	-0.5%	0.6%	3.8%	6.1%	2.6%
High-Tech Equipment	**0.9%**	-0.2%	-0.8%	-0.5%	3.6%	7.8%
Total Ex. High-Tech Equipment	**0.6%**	-0.2%	0.0%	1.6%	4.1%	2.7%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.8**	78.5	78.8	78.7	78.6	78.3
Manufacturing	**76.4**	75.9	76.7	76.3	76.4	76.2

Source: Federal Reserve Board