February Industrial Production / Capacity Utilization

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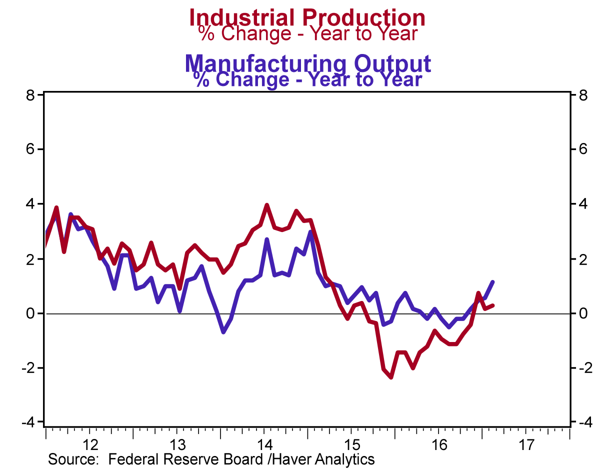
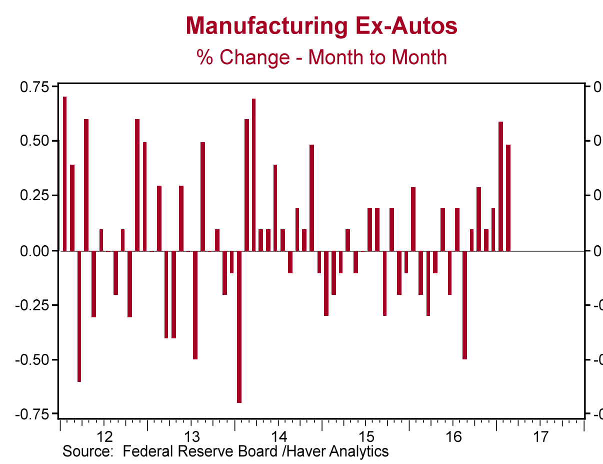
- Industrial production was unchanged in February, falling short of the consensus expected +0.2% (Including revisions to prior months, production increased 0.1%). Utility output fell 5.7%, while mining rose 2.7%.
- Manufacturing, which excludes mining/utilities, increased 0.5% in February (Including revisions to prior months, manufacturing increased 0.8%). Auto production rose 0.8% while non-auto manufacturing rose 0.5%. Auto production is up 2.7% versus a year ago while non-auto manufacturing is up 1.1%.
- The production of high-tech equipment rose 0.2% in February and is up 6.4% versus a year ago.
- Overall capacity utilization declined to 75.4% in February from 75.5% in January. Manufacturing capacity utilization rose to 75.6% in February from 75.3% in January.





Implications: Smart investors should completely disregard the headline weakness in industrial production in February, which was unchanged versus a consensus expected gain of 0.2%. Unusually warm weather held back utility output, but outside that sector activity continues to rise, with manufacturing beating consensus expectations and mining up as well. February was unusually warm in the lower-48 states, resulting in lower demand for heat and the lowest utility output in more than a decade. Meanwhile, manufacturing, which excludes mining and utilities, rose 0.5% in February, boosted by a 0.8% rise in auto production. We like to follow "core" industrial production, which is manufacturing excluding autos, and this measure increased 0.5% in February as well and has been accelerating lately. Even though "core" industrial production is only up 1.1% in the past year, it's up at a 5.2% annual rate during the past three months. We think the acceleration in core production is, in part, a lagged effect of the rebound in oil prices, which adds to the production of machinery used in the energy sector. Higher energy prices are also having a direct effect on mining, which jumped 2.7% in February. Oil and gas-well drilling posted its ninth consecutive gain in February, jumping 7.1%, and now up at a massive 162% annual rate in the past three months. Based on other commodity prices, we think oil prices are close to "fair value" range, which should keep mining in recovery after the problems of the past two years. Although weak overseas economies will continue to be a headwind for production, we expect solid growth in the year ahead.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Feb-17	Jan-17	Dec-16	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.0%**	-0.1%	0.6%	2.3%	0.6%	0.3%
Manufacturing	**0.5%**	0.5%	0.2%	4.7%	3.1%	1.2%
Motor Vehicles and Parts	**0.8%**	-0.8%	1.1%	4.7%	0.3%	2.7%
Ex Motor Vehicles and Parts	**0.5%**	0.6%	0.2%	5.2%	3.6%	1.1%
Mining	**2.7%**	2.2%	-1.4%	15.0%	14.4%	1.8%
Utilities	**-5.7%**	-5.8%	5.4%	-23.0%	-25.3%	-7.0%
Business Equipment	**0.8%**	-0.1%	0.9%	6.4%	2.4%	1.6%
Consumer Goods	**-0.4%**	-0.1%	1.2%	2.8%	-1.5%	0.1%
High-Tech Equipment	**0.2%**	-0.2%	0.5%	2.1%	10.0%	6.4%
Total Ex. High-Tech Equipment	**0.1%**	-0.1%	0.7%	2.7%	0.4%	0.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**75.4**	75.5	75.6	75.5	75.4	75.3
Manufacturing	**75.6**	75.3	75.0	75.3	75.1	75.0

Source: Federal Reserve Board