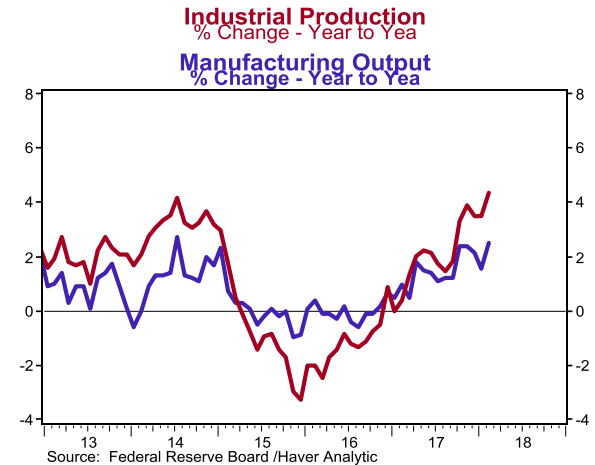


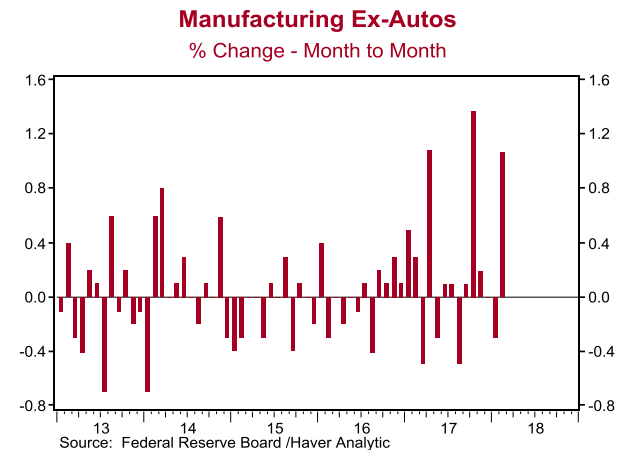
February Industrial Production / Capacity Utilization

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

- Industrial production rose 1.1% in February (+0.9% including revisions to prior months), easily beating the consensus expected gain of 0.4%. Mining output increased 4.3% in February, while utilities fell 4.7%.
- Manufacturing, which excludes mining/utilities, rose 1.2% in February (+0.9% including revisions to prior months). Auto production rose 3.9% while non-auto manufacturing increased 1.1%. Auto production is up 2.9% versus a year ago while non-auto manufacturing is up 2.5%.
- The production of high-tech equipment rose 1.1% in February and is up 8.3% versus a year ago.
- Overall capacity utilization rose to 78.1% in February from 77.4% in January. Manufacturing capacity utilization increased to 76.9 in February from 76.0 in January.



Implications: Industrial production picked up pace in February following January’s breather. The headline series rose 1.1% in February, the fastest monthly pace of growth in four months, as most major categories showed gains. More importantly, industrial production has increased 4.3% in the past year, the largest 12-month increase since early 2011. And the gains in February would have been even larger but for warmer than usual weather that pushed down utilities production 4.7%. Meanwhile, mining jumped 4.3% in February – the largest monthly increase since late 2008 - on the back of strong gains in oil and gas extractions. In the past year, mining production is up 9.7%. Drilling slowed in the second half of 2017, most likely associated with hurricanes Harvey and Irma, but remains up 27.2% from a year ago. In addition, the rig count has continued to rise in recent weeks, suggesting gains in mining production in the months ahead. In other recent factory news this morning, the Empire State index, a measure of manufacturing sentiment in New York, rose to a very healthy 22.5 in March from 13.1 in February. Meanwhile, the Philly Fed index, its counterpart among East Coast manufacturers, declined modestly to a still strong 22.3 in March from 25.8 in February, signaling optimism in the region. On the inflation front, import prices rose 0.4% in February while export prices increased 0.2%. In the past year, import prices are up 3.5% while export prices have increased 3.3%, reinforcing other recent data showing a rising trend in inflation.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Feb-18	Jan-18	Dec-17	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.1%	-0.3%	0.5%	5.0%	7.0%	4.3%
Manufacturing	1.2%	-0.2%	0.1%	4.3%	5.7%	2.5%
Motor Vehicles and Parts	3.9%	-0.2%	0.9%	19.6%	15.5%	2.9%
Ex Motor Vehicles and Parts	1.1%	-0.3%	0.0%	3.1%	5.0%	2.5%
Mining	4.3%	-1.5%	0.3%	12.5%	18.2%	9.7%
Utilities	-4.7%	1.3%	3.6%	0.0%	1.8%	10.6%
Business Equipment	1.0%	-0.1%	-0.2%	2.7%	6.5%	4.6%
Consumer Goods	0.1%	0.5%	0.6%	4.6%	4.0%	3.7%
High-Tech Equipment	1.1%	-0.2%	1.4%	9.4%	13.7%	8.3%
Total Ex. High-Tech Equipment	1.0%	-0.2%	0.4%	5.0%	7.1%	4.3%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.1	77.4	77.8	77.8	77.4	76.9
Manufacturing	76.9	76.0	76.3	76.4	76.2	75.8