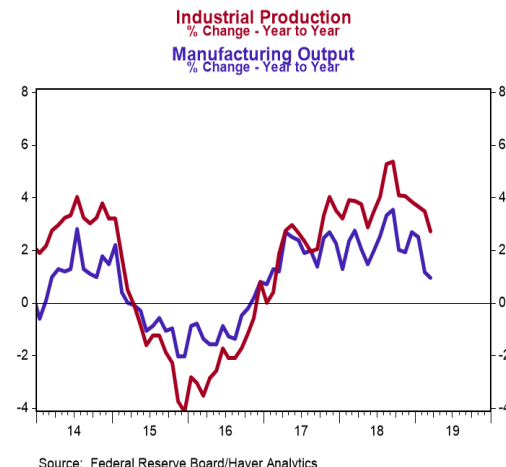


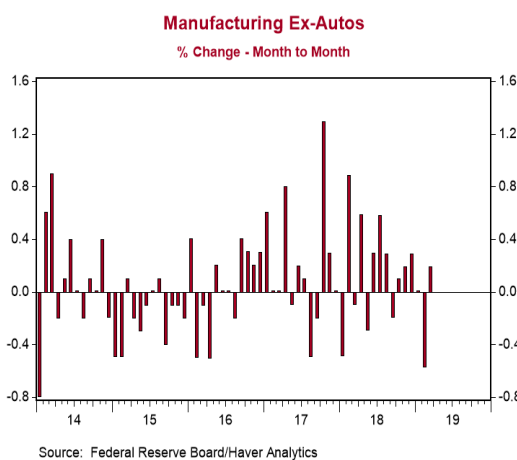
March Industrial Production / Capacity Utilization

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- Industrial production declined 0.1% in March (-0.3% including revisions to prior months), coming in below the consensus expected gain of 0.2%. Mining output fell 0.8% in March, while utilities rose 0.2%.
- Manufacturing, which excludes mining/utilities, was unchanged in March (-0.2% including revisions to prior months). Auto production declined 2.5%, while non-auto manufacturing rose 0.2%. Auto production is down 4.5% versus a year ago, while non-auto manufacturing is up 1.5%.
- The production of high-tech equipment rose 0.2% in March and is up 3.5% versus a year ago.
- Overall capacity utilization declined to 78.8% in March from 79.0% in February. Manufacturing capacity utilization fell to 76.4% in March from 76.5% in February.



Implications: Industrial production disappointed in March, falling short of expectations and posting its second decline in three months. The March weakness also pulled Q1 into negative territory, representing the first such quarterly decline since late 2017. That said, there is no need to sound alarm bells on the industrial sector or shoehorn in the narrative of slowing global growth as many analysts are doing. The primary source of weakness over the past three months has come from the typically volatile auto sector, which fell 6.7% in January and 2.5% in March. Meanwhile, industrial production excluding autos was unchanged in March and rose a modest 0.1% in the first quarter. The bright spot in today's report was that manufacturing production outside the auto sector (which represents the majority of activity) rebounded 0.2% in March after two months of weak readings. In the past year auto production is down 4.5%, while manufacturing outside the auto sector is up 1.5%, demonstrating the ongoing divergence in activity between the two sectors. Further, the various capital goods indices within manufacturing continue to show healthy growth at a pace above headline industrial production, with business equipment up 3.7%, machinery up 4.3%, and high-tech equipment up 3.5%. Comparing this with the slower year-over-year growth of 1.0% for manufacturing as a whole, or 0.2% for non-durable goods shows that companies are continuing to invest. In turn, more capital goods should help push productivity growth higher, making it easier for the economy to grow in spite of a tight labor market. The other source of weakness in today's report came from mining, which fell 0.8% due to a slowdown in oil and gas extraction. That said, the overall index remains near a record high and represents the fastest year-over-year growth of any major category at 10.5%. Today's reports shows once again why it's important to analyze the details of economic reports. Rather than cause for concern (as a brief glimpse at the headline reading might suggest), industrial production continues to show [an economy on very solid ground](#). In other recent news, the Empire State Index, which measures factory sentiment in the New York region, rose to 10.1 in April from 3.7 in March. This signals a rebound in optimism after the index touched its lowest reading since mid-2017 in March.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-19	Feb-19	Jan-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.1%	-0.3%	-1.4%	0.9%	2.7%
Manufacturing	0.0%	-0.3%	-0.5%	-3.7%	-0.4%	1.0%
Motor Vehicles and Parts	-2.5%	2.4%	-6.7%	-24.9%	-8.8%	-4.5%
Ex Motor Vehicles and Parts	0.2%	-0.6%	0.0%	-1.5%	0.4%	1.5%
Mining	-0.8%	0.0%	-0.2%	-3.6%	4.2%	10.5%
Utilities	0.2%	3.6%	0.7%	19.4%	5.4%	3.7%
Business Equipment	0.4%	-0.8%	0.2%	-0.8%	1.6%	3.7%
Consumer Goods	-0.2%	0.7%	-1.2%	-3.0%	-0.9%	-0.1%
High-Tech Equipment	0.2%	0.7%	-0.3%	2.5%	-3.2%	3.5%
Total Ex. High-Tech Equipment	-0.1%	0.1%	-0.3%	-1.1%	1.1%	2.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.8	79.0	79.1	79.0	79.2	79.0
Manufacturing	76.4	76.5	76.8	76.6	76.8	76.7

Source: Federal Reserve Board