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February Industrial Production / Capacity Utilization

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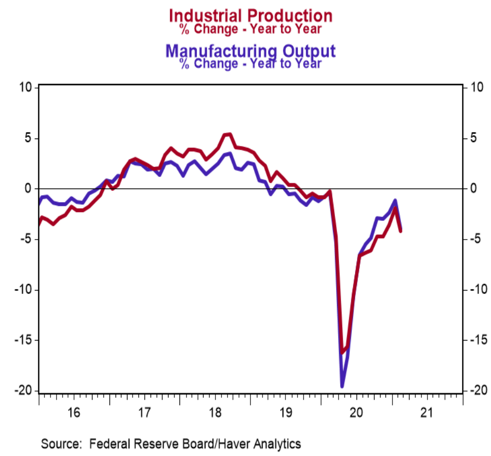
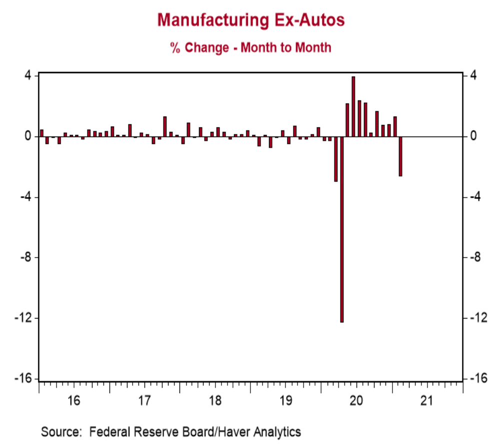
- Industrial production declined 2.2% in February (-2.3% including revisions to prior months), well below the consensus expected drop of 0.3%. Utilities output rose 7.3% in February, while mining fell 5.4%.
- Manufacturing, which excludes mining/utilities, declined 3.1% in February. Auto production fell 8.2%, while non-auto manufacturing dropped 2.6%. Auto production is down 8.6% versus a year ago, while non-auto manufacturing is down 3.7%.
- The production of high-tech equipment declined 0.3% in February but is up 7.9% versus a year ago.
- Overall capacity utilization declined to 73.8% in February from 75.5% in January. Manufacturing capacity utilization rose to 72.3% in February from 74.6%.





Implications: Industrial production plummeted in February, with severe winter weather from the recent polar vortex causing nearly every major category to post declines and the headline index to fall for the first time in five months. According to the Federal Reserve, it looks like petroleum refineries, petrochemical facilities, and plastic resin plants were hit the hardest by the deep freeze. This heavily impacted both the manufacturing and mining series which fell 3.1% and 5.4%, respectively. Excluding the effects of the winter storm, these series would have posted a decline of 0.5% and a gain of 0.5%, respectively. After February's setback, industrial production is now down 4.2% from pre-pandemic levels, and there continues to be a wide gulf between the production and consumption sides of the US economy, which creates conditions for rising inflation. For example, consumer spending data out this morning show retail sales excluding the widely shutdown restaurant sector are now up 9.6% from pre-pandemic levels. COVID-19 has clearly shifted consumer preferences from services (like travel, dining, or attending sporting events) toward goods, and that means a continued rebound in industrial production will be necessary to meet demand going forward. The one source of strength in February came from utilities where activity rose 7.3%, with both electric power generation and transmission as well as natural gas distribution posting large gains as consumers dialed up energy usage to keep their homes heated. Look for the recent upward trend in industrial production to reassert itself in the months ahead as we leave behind the temporary effects of the polar vortex. In other recent factory-related news, the Empire State Index, a measure of New York factory sentiment, rose to +17.4 in March from +12.1 in February. This is the highest reading for the index since late 2018, and the major driver of the March increase was prices manufacturers reported paying for materials and receiving for finished products, which both rose to the highest levels since 2011, signaling rising inflationary pressure.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Feb-21	Jan-21	Dec-20	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-2.2%**	1.1%	1.0%	-0.4%	3.5%	-4.2%
Manufacturing	**-3.1%**	1.2%	0.7%	-4.3%	2.6%	-4.0%
Motor Vehicles and Parts	**-8.2%**	0.1%	-0.1%	-29.0%	-13.8%	-8.6%
Ex Motor Vehicles and Parts	**-2.6%**	1.3%	0.8%	-2.4%	3.9%	-3.7%
Mining	**-5.4%**	2.1%	0.4%	-11.5%	-1.2%	-15.3%
Utilities	**7.3%**	-0.6%	3.7%	50.3%	15.0%	10.1%
Business Equipment	**-3.1%**	1.5%	0.5%	-4.6%	2.2%	-5.8%
Consumer Goods	**-0.6%**	0.9%	1.5%	7.9%	3.3%	0.9%
High-Tech Equipment	**-0.3%**	1.9%	-0.4%	5.1%	9.9%	7.9%
Total Ex. High-Tech Equipment	**-2.3%**	1.1%	1.1%	-0.4%	3.4%	-4.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**73.8**	75.5	74.6	74.6	73.9	71.6
Manufacturing	**72.3**	74.6	73.7	73.5	72.9	70.0

Source: Federal Reserve Board