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April 15, 2021 • 630.517.7756 • www.ftportfolios.com

March Industrial Production / Capacity Utilization

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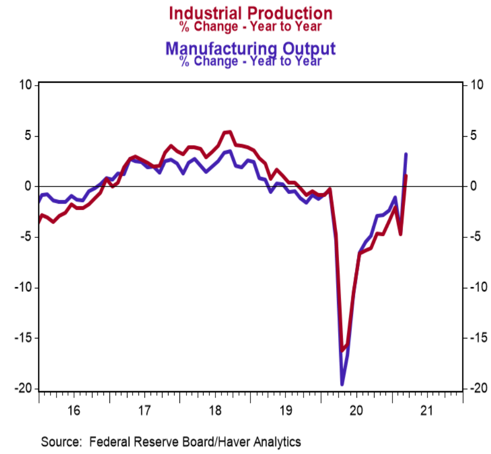
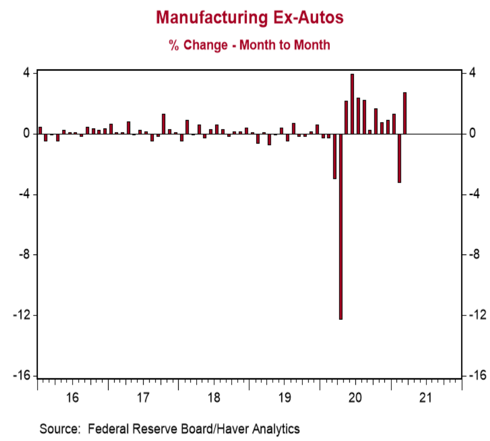
- Industrial production increased 1.4% in March (+0.9% including revisions to prior months), below the consensus expected gain of 2.5%. Utilities output fell 11.4% in March, while mining rose 5.7%.
- Manufacturing, which excludes mining/utilities, increased 2.7% in March (+2.3% including revisions to prior months). Auto production rose 2.8%, while non-auto manufacturing rose 2.7%. Auto production is up 29.8% versus a year ago, while non-auto manufacturing is up 1.5%.
- The production of high-tech equipment rose 1.7% in March and is up 7.7% versus a year ago.
- Overall capacity utilization increased to 74.4% in March from 73.4% in February. Manufacturing capacity utilization rose to 73.8% in March from 71.9%.





Implications: Industrial production began to rebound from the plunge in activity related to severe winter weather in February, but, while good news, don't get too excited about today's report. Yes, both industrial production and manufacturing activity are now up from a year ago, but this is just the result of the big declines we saw last year in the early days of the pandemic rolling into the year-ago comparison. Looking at the overall progress of the recovery versus pre-pandemic levels shows a different story. Manufacturing production is not only still down 2.0% from February 2020, but is down 1.1% from January 2021 levels before the winter storm hit in February as well. That means 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 20.2% 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. While nearly every major category posted gains in March, the one source of weakness came from utilities where activity fell 11.4%. However, this is just the result of a decline in demand for home heating as the unseasonably cold weather in February became unseasonably warm weather in March. Look for a continued upward trend in industrial production in the months ahead as reopening continues and factories continue to ramp up production. Measures of factory-related sentiment from this morning reinforce this outlook. The Empire State Index, a measure of New York factory sentiment, rose to +26.3 in April from +17.4 in March, the highest reading since 2017. Meanwhile, the Philadelphia Fed Index surged to its highest level since 1973, posting a reading of +50.2 in April versus an already sky-high reading of +44.5 in March.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Mar-21**	**Feb-21**	**Jan-21**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**1.4%**	-2.6%	0.9%	-1.1%	5.5%	1.1%
Manufacturing	**2.7%**	-3.7%	1.3%	0.8%	7.0%	3.2%
Motor Vehicles and Parts	**2.8%**	-10.0%	1.0%	-23.7%	-8.3%	29.8%
Ex Motor Vehicles and Parts	**2.7%**	-3.2%	1.3%	2.8%	8.1%	1.5%
Mining	**5.7%**	-5.6%	2.1%	7.7%	8.8%	-8.8%
Utilities	**-11.4%**	9.2%	-3.2%	-23.1%	-7.3%	-0.3%
Business Equipment	**2.7%**	-2.9%	1.9%	6.6%	9.9%	5.7%
Consumer Goods	**-0.6%**	-0.8%	0.0%	-5.5%	2.1%	5.1%
High-Tech Equipment	**1.7%**	0.1%	0.8%	11.3%	9.0%	7.7%
Total Ex. High-Tech Equipment	**1.5%**	-2.6%	1.0%	-1.1%	5.6%	1.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**74.4**	73.4	75.3	74.4	74.2	71.6
Manufacturing	**73.8**	71.9	74.6	73.4	73.3	70.2

Source: Federal Reserve Board