February Industrial Production / Capacity Utilization

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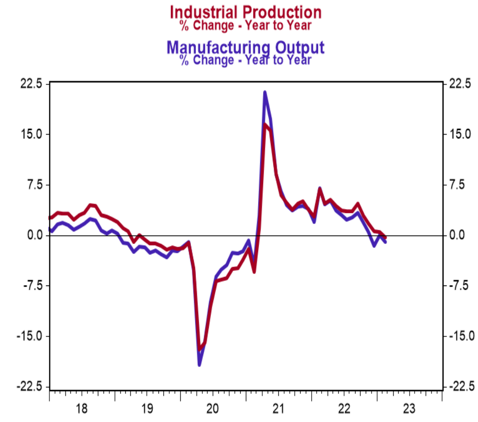
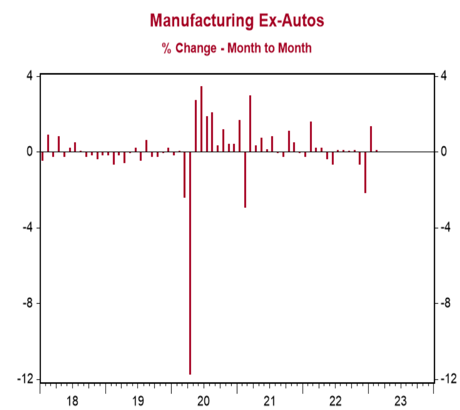
- Industrial production was unchanged in February (-0.4% including revisions to prior months), below the consensus expected gain of 0.2%. Utilities output rose 0.5% in February, while mining fell 0.6%.
- Manufacturing, which excludes mining/utilities, increased 0.1% in February. Auto production fell 0.3%, while non-auto manufacturing increased 0.1%. Auto production is up 10.8% in the past year, while non-auto manufacturing is down 1.9%.
- The production of high-tech equipment declined 0.6% in February and is down 11.6% versus a year ago.
- Overall capacity utilization remained unchanged at 78.0% in February. Manufacturing capacity utilization fell to 77.6% in February from 77.7%.



Source: Federal Reserve Board/Haver Analytics

Implications: Industrial production continued to limp along in February, remaining unchanged for the month and coming in below consensus expectations. Moreover, production in previous months was revised lower, as well. Industrial production is now down 4.5% at an annualized rate in the past three months, a signal that a recession is likely coming in 2023 with the goods sector leading the way. Although the overall report was nothing to celebrate, some of the data were better than expected. Specifically, the manufacturing sector eked out a small gain of 0.1% in February. This was the biggest positive contributor in February and comes on the heels of an upwardly revised 1.3% gain in January. Non-auto manufacturing was entirely responsible for the increase in February. Meanwhile, auto production declined 0.3%. Given the trend of consumers shifting their preferences back toward services and away from goods, we don't expect this strength in manufacturing to last. Utilities were also positive in today's report, rising a modest 0.5%. However, a rebound was widely expected here after January's decline of 10.1%, which was the largest monthly drop on record back to 1939. Keep in mind that utilities output is highly volatile and mostly depends on the weather. Finally, the mining sector was the biggest source of weakness in February, posting a decline of 0.5%. The drop was driven by a slower pace of oil, gas, and other mineral extraction as well as less drilling of new wells. Given that the mining index remains below its pre-pandemic highs, we continue to expect the US energy sector to be a lifeline for industrial production in 2023.



Source: Federal Reserve Board/Haver Analytics

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Feb-23**	**Jan-23**	**Dec-22**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr to Yr *% Change***
Industrial Production	**0.0%**	0.3%	-1.4%	-4.5%	-3.4%	-0.3%
Manufacturing	**0.1%**	1.3%	-2.1%	-2.7%	-2.5%	-1.0%
Motor Vehicles and Parts	**-0.3%**	0.6%	-0.7%	-1.5%	-0.9%	10.8%
Ex Motor Vehicles and Parts	**0.1%**	1.3%	-2.2%	-3.1%	-2.7%	-1.9%
Mining	**-0.6%**	2.0%	-2.2%	-3.4%	-1.0%	7.2%
Utilities	**0.5%**	-10.1%	5.3%	-18.2%	-12.9%	-7.6%
Business Equipment	**-0.1%**	1.2%	-1.8%	-3.2%	-2.8%	1.4%
Consumer Goods	**0.1%**	-0.5%	-0.3%	-2.7%	-1.9%	-0.9%
High-Tech Equipment	**-0.6%**	-4.9%	-5.6%	-36.7%	-23.8%	-11.6%
Total Ex. High-Tech Equipment	**0.0%**	0.4%	-1.4%	-3.8%	-2.9%	-0.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.0**	78.0	77.9	78.0	78.8	79.3
Manufacturing	**77.6**	77.7	76.7	77.3	78.1	78.7

Source: Federal Reserve Board