ECONOMIC UPDATE
REGIONS
April 15, 2016

March Industrial Production: A Weak Report All The Way Around

- Industrial production fell by 0.6 percent in March, with manufacturing output down by 0.3 percent.
- The overall capacity utilization rate fell to 74.8 percent, while the utilization rate in manufacturing fell to 75.1 percent.
- On a year-over-year basis, total industrial production was down by 2.03 percent in March, with manufacturing output fell by 0.26 percent.

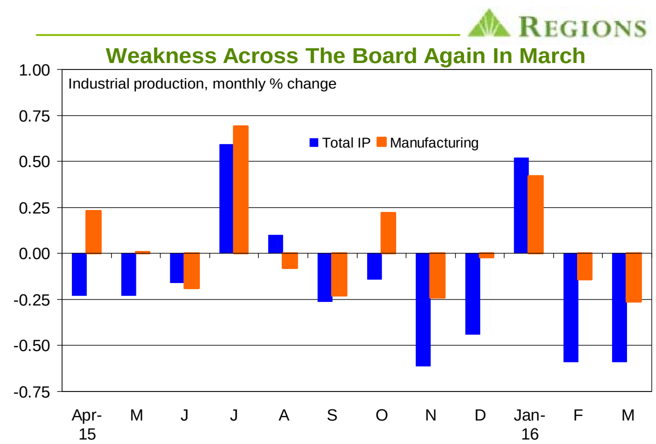
Output amongst the nation's factories, mines, and utilities fell by 0.6 percent in March, matching the decline seen in February. Manufacturing output was down 0.3 percent, mining output fell by 2.9 percent, and utilities output was off by 1.2 percent. Capacity utilization rates fell in each of the three broad sectors, with the overall utilization rate falling to 74.8 percent, the lowest since August 2010. This was a weaker than expected report – mining output was expected to decline, but by less than reported today, and manufacturing output was expected to be basically flat. Moreover, the decline in manufacturing output reported in the IP data is at odds with other indicators of manufacturing activity, such as the national and regional ISM surveys and the various Federal Reserve surveys, which pointed to improvement in the factory sector in March.

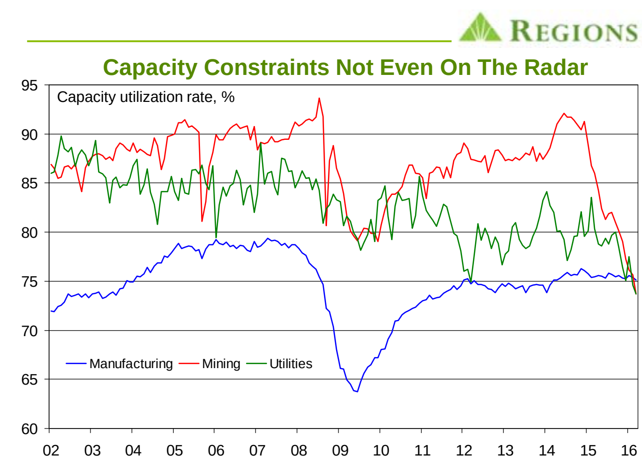
After having fallen 3.6 percent in February utilities output fell an additional 1.2 percent in March. Data from the National Oceanic and Atmospheric Administration show February was the mildest in the contiguous U.S. since 2000 and March the mildest since 2012, hence there was far less demand for heating across much of the U.S. With the decline in output, the capacity utilization rate in the utilities sector slipped to 73.72 percent in March, the lowest utilization rate on record for this series, which dates back to January 1967. As a side note, diminished demand for utilities output will turn up in the consumer spending data in the form of lower utilities outlays.

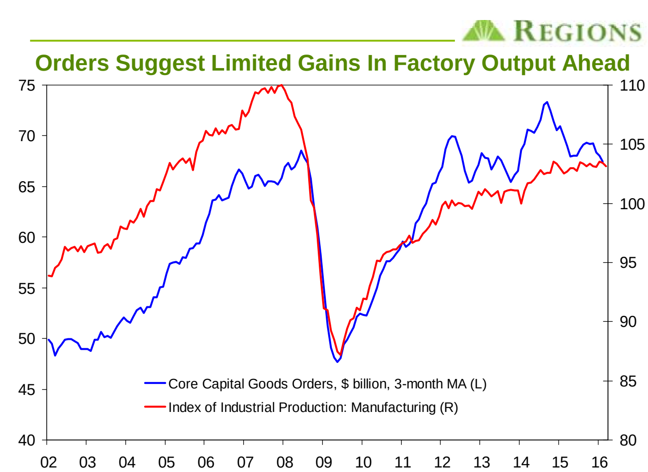
Output in the mining sector, which includes oil drilling and coal, fell by 2.9 percent in March. Steadily declining rig counts tipped further cutbacks in oil production, and this is expected to continue in the months ahead even should prices stabilize around current levels. While oil tends to dominate the discussion of the energy sector, the bankruptcy filing by Peabody Energy – the world's largest private sector coal producer – earlier this week served as a reminder of the damage done to that industry over recent years, some inflicted by economic factors, some by regulatory fiat.

While the decline in mining output was expected and the swings in utilities output tell us more about the weather than about the underlying health of the economy, the decline in manufacturing output is more concerning. Clearly the manufacturing sector has been struggling for months now with three main headwinds – weak global demand, cutbacks in the production of energy exploration and production machinery and equipment, and a sizeable inventory overhang. Still, as noted above, other indicators of manufacturing activity pointed to improvement in March, particularly the increases in new orders and current production in the ISM Manufacturing Index. The industrial production data, however, tell a different tale, with broad based declines in output in March. Auto and light truck assemblies fell 1.7 percent in March. While unit vehicle sales did slip sharply during the month, new orders for motor vehicles have continued to rise over recent months while inventories are not excessively high – auto inventories are lower than their year-ago level while light truck inventories are a bit higher. Aside from motor vehicles, output of construction supplies, business equipment, and consumer goods all fell in March.

Low, and falling, utilization rates are an indication that there is still an elevated degree of slack not only in the labor market but in the broader economy. Additionally, we have pointed to the low utilization rate in the manufacturing sector as one culprit behind what has been persistently weak business investment spending over the course of this expansion. The data on orders of new capital goods suggest this is unlikely to reverse any time soon. Coming months will render the verdict on which data are telling the accurate story on the manufacturing sector, and one of these stories has a decidedly more favorable ending than the other.







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