Economic Analysis

# Struggling Manufacturing Sector Weighs on U.S. Industrial Production in 1Q15

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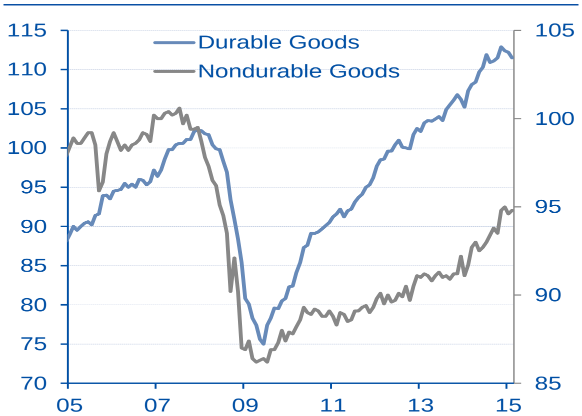
- **Total industrial production up 0.1% in February, with utilities output jumping 7.3%**
- **Manufacturing and mining output declined due to depressed oil prices and winter weather**
- **Dip in capacity utilization highlights current lack of inflationary pressure in the economy**

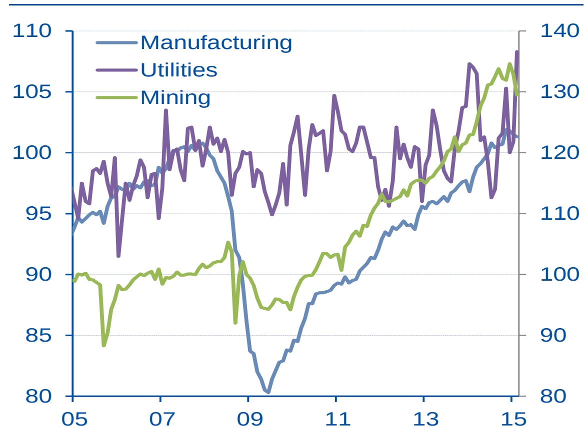
U.S. industrial production inched up 0.1% in February— a disappointing figure considering expectations for a 0.3% increase. This comes after a downward revision to January's growth (from 0.2% to -0.3%), adding more disappointment to the 1Q15 picture. February's slight rise in industrial production is owed almost entirely to the surge in utility output, which jumped 7.3% as a result of increased demand for heating due to an unusually harsh winter. Manufacturing, the largest component of industrial output (~80%), dipped 0.2% in February in its third consecutive decline, more likely reflecting a temporary slowdown due to winter weather rather than a more permanent weakening of the economy. Lower manufacturing output is largely attributable to a drop in production of durable goods, which dropped 0.6% for the month. Motor vehicle and parts manufacturing didn't help (down 3.0%), while most other industry groups also experienced decline. Mining sank 2.5% in February—its fourth decline in the last five months. The persistent weakness in this sector's output is largely due to drops in the coal mining and oil and gas well drilling and servicing indexes, reflecting the impact of depressed oil prices. It is interesting to note the significant shift in mining output that has occurred since the crisis, accelerating at a historically fast pace and pointing to a growing importance of the sector to the U.S. economy as a whole.

Chart 1
**Manufacturing Production**
**SA, 2007=100**




Source: BBVA Research & FRB

Chart 2
**Industrial Production Components**
**SA, 2007=100**




Source: BBVA Research & FRB

On another note, capacity utilization, which measures slack in the industrial sector, dropped slightly to 78.9%. This highlights the current lack of inflationary pressure in the economy and is in line with the ongoing declines in producer prices. Prior to the release of February's numbers, capacity utilization had most recently been on a steady rise; nevertheless, the figure has not come close to reaching pre-recession levels of 80% and above. A capacity utilization rate above 82% is where we could start to see some increased price pressures.

Overall, manufacturing has started off 2015 on a softer note than expected; nevertheless, we do not intend to revise down our GDP forecast for the quarter solely based on this disappointing report. Our forecast had already accounted for a weather-related impact, and we continue to expect a pick-up in output in the coming months.