

Economic Analysis

Manufacturing Production Continues Upward Trend

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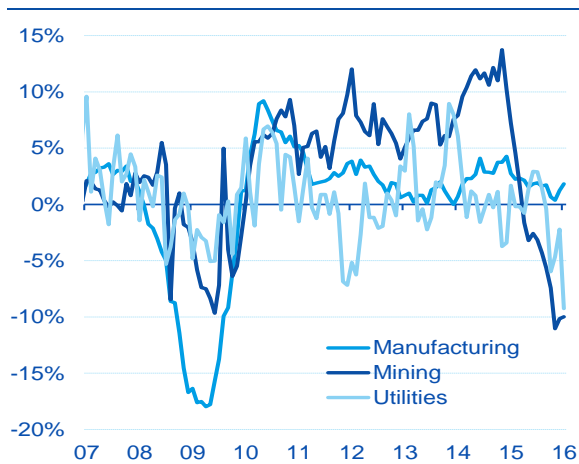
- **Total industrial production fell 0.5% MoM in February following a 0.9% gain in January**
- **Manufacturing production up for second consecutive month, rising 0.2% MoM**
- **Commodities prices and heating demand brought down mining and utilities components**

Although industrial production in February declined 0.5% MoM after rising in January, the manufacturing component added some much-needed optimism to this release. So far, 2016 looks like a solid year for manufacturing production, which was up for the second month in a row, rising 0.2% MoM in February despite headwinds from weak global demand and the strong dollar. Within manufacturing, apparel (2.9% MoM) and petroleum (2.5% MoM) were the strongest categories.

February's decline in industrial production was due to weakness in the mining and utilities components, which were down 1.46% MoM and 4.01% MoM, respectively. Mining production continued its downward trend, which started early last year as a result of the oil price plunge. For most of 2015, shale producers kept pumping despite the initial decline in oil prices, but they have begun to scale back production since the end of the last year. Utilities production is typically very volatile, and the Fed attributes February's plunge to unseasonably warm weather which lowered heating demand.

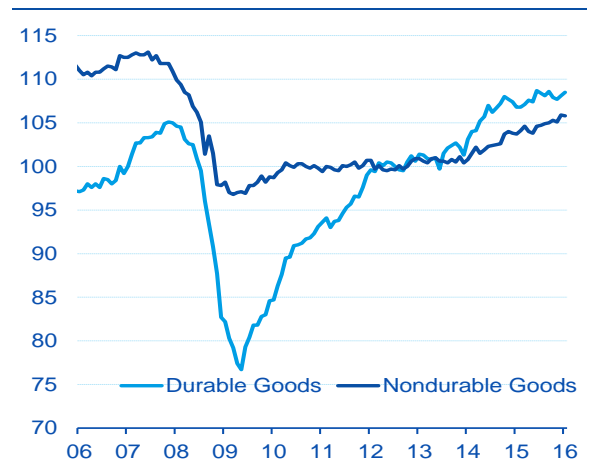
The slack in factory output, measured by capacity utilization, fell to 76.7%, indicating that domestic industries continue to produce below potential; however, manufacturing capacity came in unchanged at 76.1%. Combined with today's [inflation report](#), this manufacturing production release confirms an improving start to the year and could strengthen the argument of those advocating further rate hikes in the coming months.

Chart 1
Industrial Production Components
YoY% Change



Source: BBVA Research & FRB

Chart 2
Manufacturing Production Components
SA, 2012=100



Source: BBVA Research & FRB

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