

Economic Analysis

Mining & utilities weigh on industrial output in March

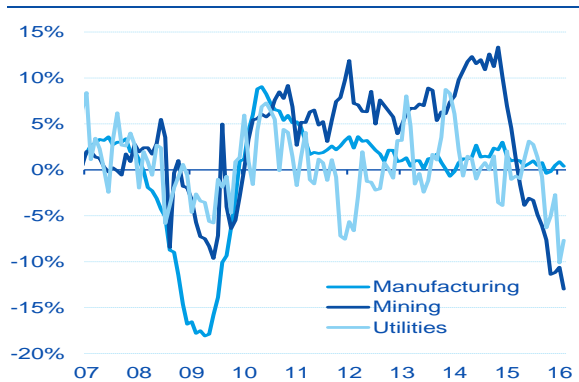
Filip Blazheski / Kim Chase

- **Industrial production decreased 0.6% MoM in March for the second consecutive month**
- **All components declined, with mining down 2.9% and utilities falling 1.1%**
- **The weaker U.S. dollar, solid labor market performance, and improving business sentiment indicate improved manufacturing production in 2Q16**

Industrial production decreased 0.6% in March for a second month in a row, significantly more than the consensus expectations (drop of 0.1%). For the first quarter as a whole, industrial production fell at an annual rate of 2.2%, slightly less than 4Q15's 3.3% decline. A substantial portion of the overall decrease stemmed from mining (-2.9%) and utilities (-1.2%). Mining production continued its downward trend due to shale producers scaling back production as a result of the oil price plunge. The recent uptick in oil prices is yet to be reflected in any increase in production going forward, but even if this happens it will be very limited, at least in the near term. Utilities production continued to suffer due to unseasonably warm weather, lowering heating demand at the end of winter. This should shift in the coming months as we head into the warmer spring and summer months with stronger demand for air conditioning. The manufacturing component declined 0.3% and the previously estimated February 0.1% gain was reversed to a decline of 0.1%. The sector continues to struggle with the headwinds from weak global demand and the strong dollar throughout the first quarter. Within manufacturing, the declines were pretty much across the board, with computer and electronic products (1.0% MoM) and petroleum and coal products (0.9% MoM) performing best within the few categories that posted gains. Durable goods production declined more than nondurable goods production.

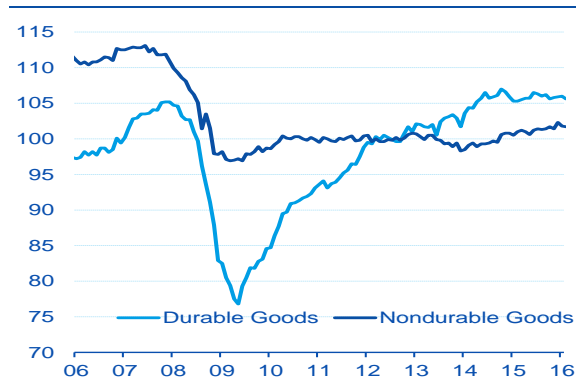
The slack in factory output, measured by capacity utilization, fell from 75.3% to 74.8%, the lowest since November 2010, indicating that domestic industries continue to produce below potential. The report adds to the data on retail sales, business spending, trade and wholesale inventories to show that GDP growth in the first quarter was very low. That said, the most recent CEO confidence survey did show an uptick, as did the ISM services and manufacturing indexes, which together with the relative weakening of the U.S. dollar and the solid performance of the labor market indicate that an improvement in industrial production is likely to occur in 2Q16.

Chart 1
Industrial Production Components
YoY% Change



Source: FRB & BBVA Research

Chart 2
Manufacturing Production Components
SA, 2012=100



Source: FRB & BBVA Research

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