

Economic Analysis

# Industrial output recovers in April

Filip Blazheski / Kim Chase

- **Industrial production increased 0.6% MoM in April after two months of declines**
- **Utilities and manufacturing output increased, while mining continued to contract**
- **The weaker U.S. dollar, higher oil prices, solid labor market performance, and improving business sentiment hint at gradual improvement in industrial production going forward**

Industrial production increased 0.6% in April after two months of declines, significantly more than consensus expectations (0.2%). This comes after two difficult quarters—industrial production fell at an annual rate of 3.4%, in 4Q15 and 1.5% in 1Q16. The biggest relative gain in April was in utility production (Chart 1), which increased 5.7% MoM, likely due to a recovery from the weak figures in the previous, unseasonably warm winter months. Mining production continued contracting, as the recent uptick in oil prices is yet to be reflected in any increase in production going forward. Manufacturing increased 0.3% MoM, offsetting the similar decline in March.

The gain in manufacturing output is particularly positive as it indicates a more favorable demand outlook, and comes after stronger readings of the ISM manufacturing index for the months of March and April. That said, the headwinds from sluggish global demand remain, even though the weaker dollar is likely starting to have a positive impact. Within manufacturing, the gains in the durable goods section were across the board, with the exception of primary metals and electrical equipment, appliances and components. In the non-durable goods section, the results were more mixed. This comes after nondurable goods performing better than durable goods in the previous two months.

Capacity utilization increased from 74.9% in March (the lowest since October 2010), to 75.4%. Domestic industries continue to produce below potential, but the worst is likely over. April's report adds to the data on retail sales and the impression that the labor market is continuing to improve, indicating that the economy is performing better going into the second quarter. The ISM manufacturing index remains in expansion territory (Chart 2), which together with the relative weakening of the U.S. dollar, higher oil prices, and solid labor market trends, indicate that industrial production is likely to continue to improve gradually in 2Q16.

Chart 1  
**Industrial Production Components**  
YoY% Change



Source: FRB & BBVA Research

Chart 2  
**Industrial production and ISM Manufacturing Index**  
% YoY and Index



Source: FRB, ISM & BBVA Research

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