

US: FEBRUARY INDUSTRIAL PRODUCTION STRONG, HOUSING STARTS SOFT

**U.S. industrial production (IP) rose a sharp 1.1% m/m in February (Consensus: +0.4%), lifting its yr/yr rise to 4% yr/yr, confirming that a broad array of industries have firmly rebounded from their 2015-2016 slump. Over the last four months at least 16 of the 23 major categories have increased on a year-over-year basis (Charts 1 and 2).*

**U.S. housing starts declined to 1,236k annualized in February from 1,329k previously, due to a large and expected 118k decline in the volatile multifamily starts, while single-family starts increased 25k to 902k, the second best reading of this expansion. More construction in the single-family sector indicates that households continue to transition to home buying from renting (Chart 3).*

**Building permits fell to an annualized 1,298k from 1,377k, primarily because of a 74k decline in multifamily permits, though single-family permits declined by 9k over the last two months to 872k in February, suggesting a slight slowing in underlying momentum (Chart 4).*

Industrial Production

Production rose in all major sectors except utilities in February: motor vehicle: +3.9% m/m, manufacturing ex. motor vehicle: +1%, mining: +4.3%, utilities: -4.7%. The decline in utilities production was the result of warmer-than-normal temperatures in February that reduced heating demand and not a sign of weakness in the sector. Manufacturing production excluding motor vehicles gauges underlying product demand and its rebound after some softness in prior months support the resilient readings on key regional manufacturing sentiment indexes. The strong gain in mining production reflected increases in the weekly oil and gas rig count corresponding to higher energy prices.

By market group, production of business equipment increased 1% m/m to its highest level this cycle and bodes well for capital spending on fixed investment in Q2. We expect healthy real business fixed investment growth of 7% in 2018.

The strongest growing manufacturing production components over the last year – nonmetallic mineral products (+5% yr/yr), fabricated metal products (+5.1% yr/yr), machinery (7% yr/yr), computers and electronic products (+5% yr/yr) – correspond to the synchronized pick-up in activity in the global production and trade (Chart 5).

Note that the decline in utilities production will weigh on energy services consumption in GDP.

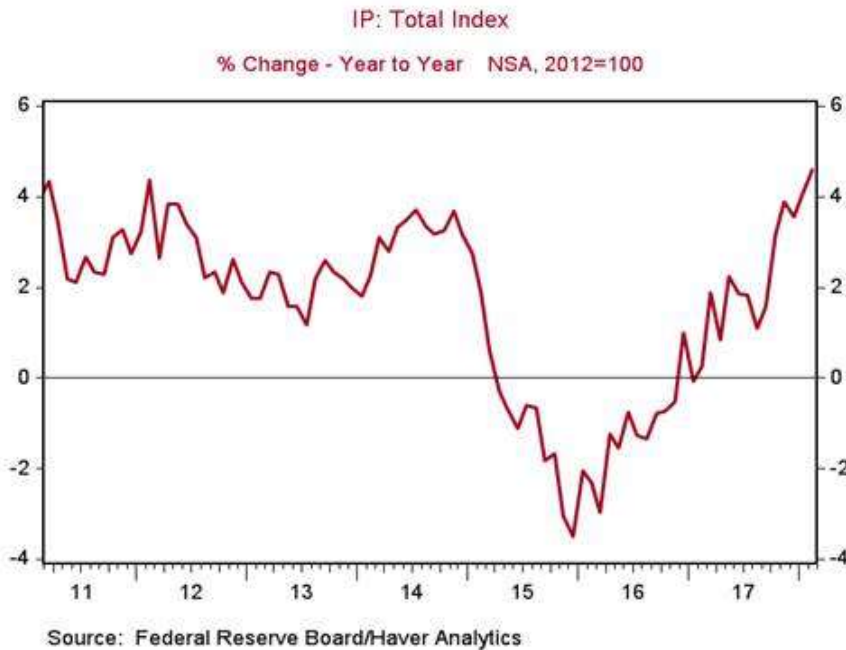
Housing

With building permits continuing to outpace starts, the number of housing units authorized but not yet started increased 19% yr/yr in February (Chart 6). We expect home builders to continue working off this backlog in coming months, especially as more favorable weather shines through. National home builder sentiment remains **optimistic with the NAHB reporting that “Builders’ optimism continues to be fueled by growing consumer demand for housing and confidence in the market... However, builders are reporting challenges in finding buildable lots, which could limit their ability to meet this demand.”**

16 March 2018

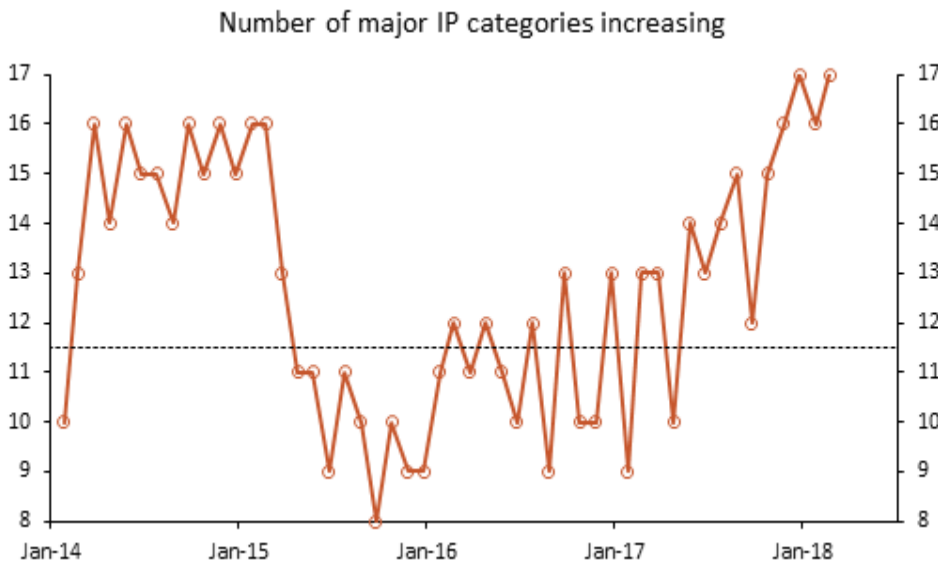
Although mortgage rates have increased, they remain low by historical standards and while they may weigh temporarily on activity, the economy is sufficiently resilient to withstand higher rates. The job market is in good shape, labor force participation rate among the prime-working age population is rising, wages are expected to grow at a faster rate this year, household net worth is elevated and pent-up demand is high (Chart 7). The chronic shortage of for-sale homes point to the need for continued construction.

Chart 1: Industrial Production (year-over-year, %)



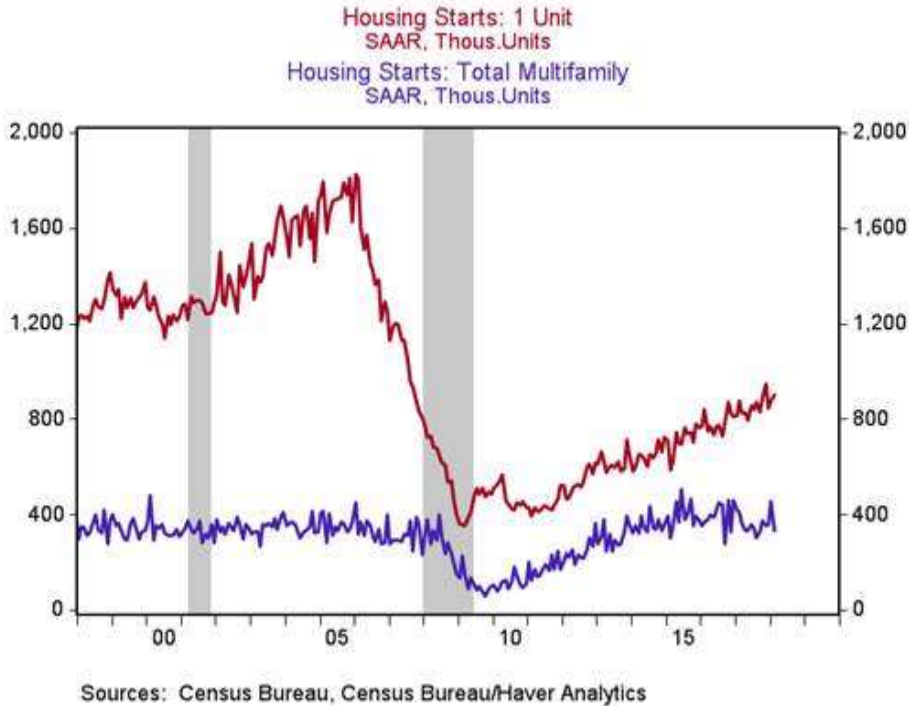
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 2: Number of major IP categories increasing



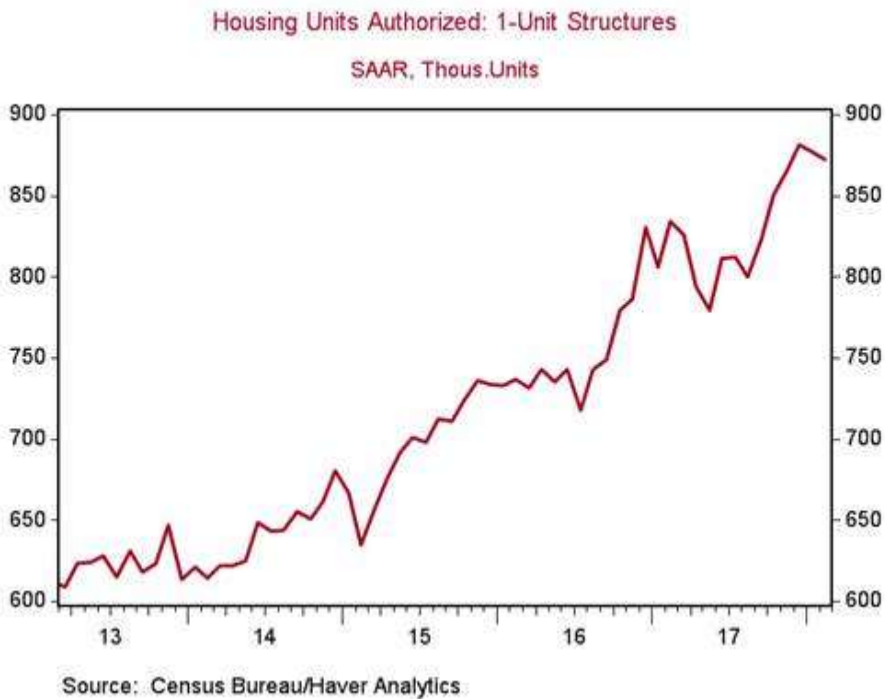
Source: Monthly data. Source: Federal Reserve Board and Berenberg Capital Markets

Chart 3: Housing Starts: Single-Family and Multifamily



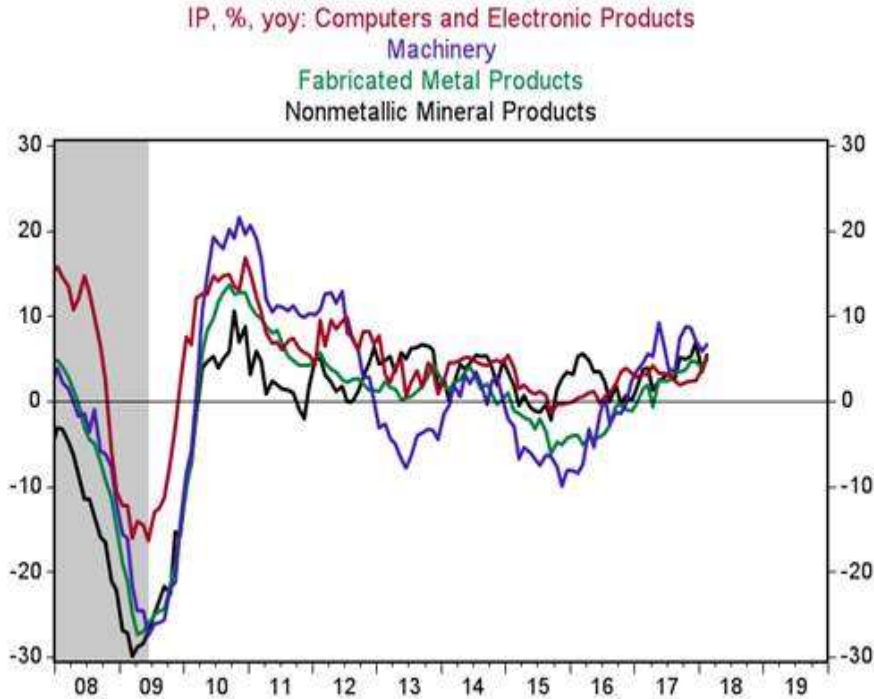
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 4: Single-Family Building Permits



Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 5: IP: Computers and Electronic Products, Machinery, Fabricated Metal Products, Nonmetallic Mineral Products (year-over-year, %)



Source: Federal Reserve Board/Haver Analytics

Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 6: Housing Units Authorized But Not Started (year-over-year, %)



Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 7: Labor Force Participation Rate for Prime-Working Age



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

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