

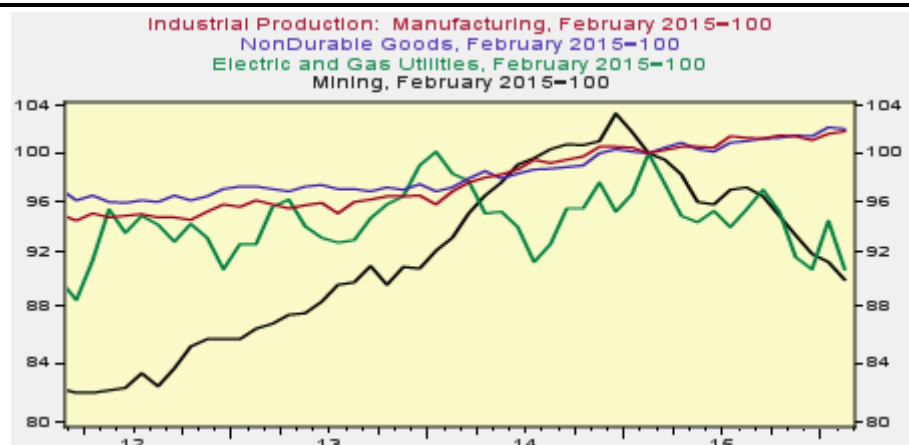
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18 March 2016

Production rising in most US industries

- Industrial production fell 0.5% in February, lowering its year-on-year change to -1.0%. Does this confirm the worst fears that the US economy is slumping and the decline in production will spread to consumption and drag the economy into recession? Absolutely not.
- According to the Federal Reserve that compiles the industrial production data, in February manufacturing production rose 0.2% and is now up 1.8% year-on-year while two industries – mining (primarily oil and shale drilling) and electric and gas utilities dragged down the industrial production index.
- In fact, the Fed’s industrial production for 23 different industrial categories shows that only eight are down from last year while the other 15 have increased. The industrial production index of the median industrial sector continues to rise moderately.
- Among the 11 categories of durable goods manufacturing, production in eight have increased in the last year while three (primary and fabricated metal products and machinery) have declined. The declines in primary and fabricated metal products are presumably associated with plummeting prices of metals that have squeezed margins of producers. Production is growing strongly for computers and related products, electrical equipment and appliances, motor vehicles and furniture and related products. Overall, production in durable goods manufacturing is up 1.6% year-on-year.
- In nondurable goods, manufacturing production is growing in six of the eight categories, with the fastest increases in food and beverages, chemicals, plastics and rubber products and printing and related activities, while production is declining in only two (apparel and leather goods, and paper). Apparel production continues to migrate overseas while weak domestic paper production reflects the structural shift toward “going paperless”. Overall, production in nondurable goods manufacturing has risen 2.0% year-on-year.
- The decline in oil and shale production is expected to continue through 2016 as the industry adjusts to lower prices that have shrunk margins or driven them negative for some producers. Utility production has been suppressed by a warmer-than-normal winter while production and distribution processes have become more efficient.
- In summary, a sector-by-sector analysis of the Fed’s monthly industrial production data suggests that the overall index is being dragged down by declines in a few obvious sectors and sustained growth of the majority will continue.
- There is no reason to believe that the declines in a few select industrial sectors will drag down the others. For example, reduced gas and utility usage raises consumer purchasing power and increases demand for other goods and services, and it reduces business operating costs. The probability that the weak overall industrial production data will spread to the rest of the economy and generate recession is remote.

Industrial production in different industries



Source: Federal Reserve Board / Haver Analytics

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