



Economics Group

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Nice Bounce for Industrial Production

Industrial production surged 0.6 percent in February, led by a partial recovery in factory output after last month's drop. Motor vehicles led the charge, but again, the gains here only partially offset January declines.

Partial Reversal in Factory Sector, Strength in Mining

Manufacturing output is the primary component for this indicator, commanding three quarters of all industrial production. In January, this component dropped 0.9 percent, led lower by a drop-off in the production of motor vehicles and parts, which fell 5.2 percent in the month. So, the 0.8 percent bounce reported for February factory output is a welcome indication that this heavyweight component of industrial production is not down for the count. Mining output, which comprises about 15 percent of industrial production, improved for the second straight month.

The decline in motor vehicles and parts in January, which was partially offset in February, jives with total vehicle sales which fell to an annualized pace of 15.2 million in January before picking up to 15.3 million in February. Last year was the best year for auto sales since 2007, but the current pace is running well below the recent high of a 16.3 million pace hit in November. One of the big questions we have been getting recently involves whether or not we will see some "payback" for the lousy weather. If you needed a new car and decided that the middle of a blizzard was a bad time to go to the dealership, our guess is you will go back when the weather improves. In other words, auto sales is one area where we would expect to see payback, although auto sales were losing momentum before the wintry weather began in earnest.

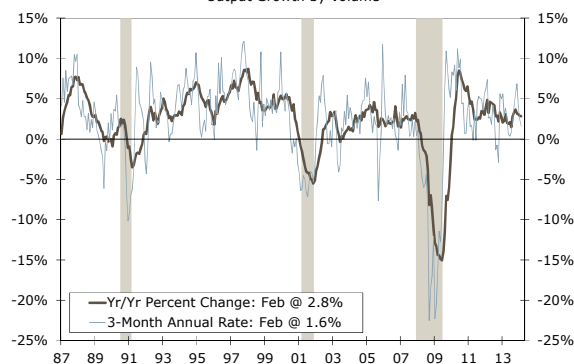
Weather Extremes Cancel Out for an "Average" Month

According to National Climatic Data Center, the average U.S. temperature was 32.2 degrees Fahrenheit in February, just 1.6 degrees below normal, and precipitation for the month was about average. This seems inconsistent with ubiquitous claims about excessive wintry weather, but it seems that extremes on both ends of the spectrum are canceling one another out. It is the warmest and the third driest winter on record in California, and the tundra is not so chilly in Alaska, which is experiencing the eighth warmest winter on record. Meanwhile, persistently cold temperatures in the East and Midwest froze 91 percent of the surface of the Great Lakes in February and a category three winter storm mid-month shuttered businesses and schools from the deep South to New England. Utilities output slipped 0.2 percent in February after surging 3.8 percent in January.

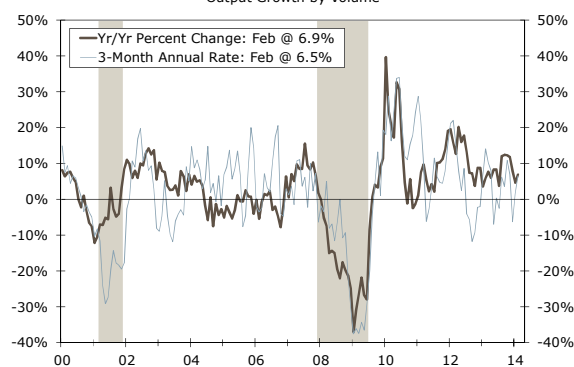
In our view, indicators like industrial production, inventories and factory orders need to be taken with a bag of rock salt until it is clear that supply-chain disruptions are no longer influencing the data.

In a separate report this morning we learned that the New York Federal Reserve's Empire Manufacturing Index improved to 5.61 in March from 4.48 in February. This regional survey is well-positioned geographically to capture wintry weather effects, so the improvement here is heartening. We still look for slow steady growth in the factory sector in 2014.

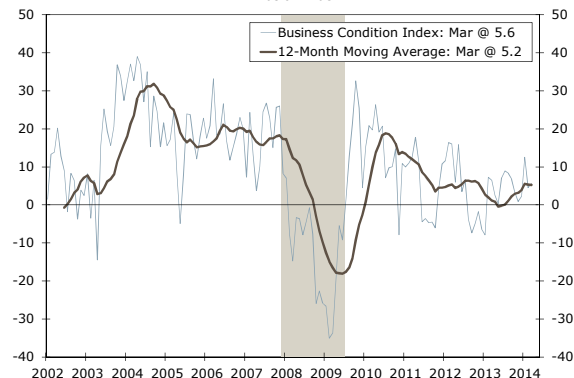
Total Industrial Production Growth
Output Growth by Volume



Industrial Production - Motor Vehicles & Parts
Output Growth by Volume



New York Mfg. General Business Conditions
Diffusion Index



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