

Economics Group

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Industrial Production Rebounds in a Big Way

Industrial production rose 0.7 percent in March, beating expectations for an increase of 0.5 percent. With upward revisions to February's data, the activity in the industrial sector looks to have thawed.

Hopes of a Weather-Related Rebound Materialize

The prolonged run of disappointing data to start the year fanned concerns that recent weakness in economic activity was due to more than just the unusually harsh winter. Today's industrial production report should alleviate much of those fears now that the hopes of a weather-related bounce-back have materialized. In last month's report, we saw manufacturing production—which accounts for three-quarters of all industrial output—almost fully reverse January's drop. In March, not only did manufacturing production surge ahead a further 0.5 percent, but February's increase was revised up half a percentage point to 1.4 percent. The falloff in production during January, however, put the quarter off to a weak start, and manufacturing output slowed to a 1.8 percent annualized rate. The rebound in February and further gain in March suggests that the momentum remains favorable heading into the second quarter.

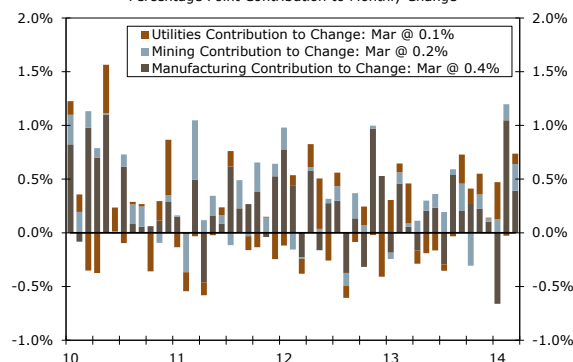
Production gains were fairly widespread across the manufacturing sector in March. One notable exception, however, was a drop of 0.8 percent in motor vehicles & parts output. The pullback comes on the heels of a 2.1 percentage point upward revision to last month's print, and with sales rebounding solidly in March, we expect auto production to climb higher on trend in the coming months.

Total industrial production in March rose a better-than-expected 0.7 percent, while February's initial increase doubled to 1.2 percent on the upward revision to manufacturing production as well as stronger mining output. Mining production rose 1.5 percent in March on increased crude oil, natural gas and coal mining, and is up 7.9 percent over the past year. To see more pure weather effects on the industrial sector, look no further than utilities output. After another unseasonably cold month in much of the country, utilities output rose 1.0 percent in March, and for the first quarter as a whole, utilities output rose at an 18 percent annualized rate.

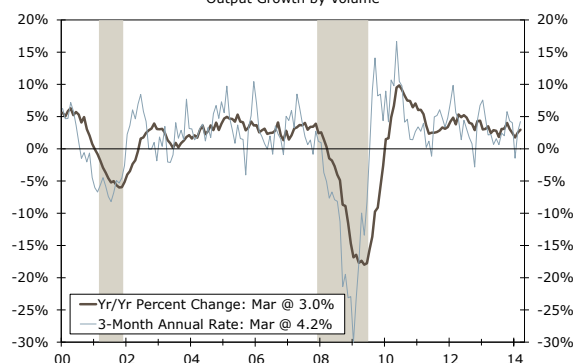
More Limited Growth Ahead?

Yesterday's Empire State Manufacturing Survey threw a little cold water on the hopes of a strong rebound in production this Spring. The index fell back 4.3 points to a reading of 1.3 in April. New orders fell slightly, although shipments grew roughly in line with March's modest pace. Employment growth accelerated and the workweek ticked up, which likely helped to speed up delivery times. Despite the modest pace of manufacturing activity of late, plans for capital expenditures and technology spending grew. This suggests the industry remains upbeat about future business prospects and should provide some support to capital investment in the coming months. The Empire survey is just one of many regional PMIs to be released in the coming weeks, and we will look for tomorrow's release of the Philly Fed survey for further indication on how the manufacturing sector is faring.

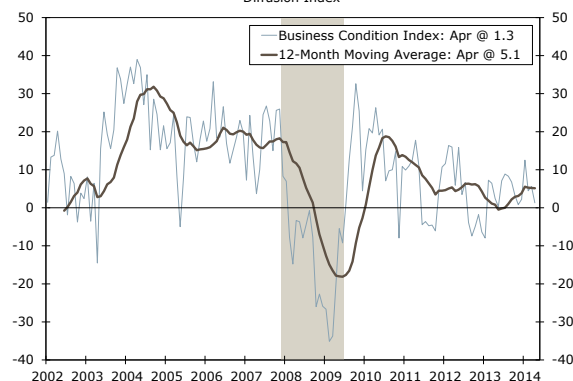
Industry Group Contribution to Change
Percentage Point Contribution to Monthly Change



Manufacturing Production Growth
Output Growth by Volume



New York Mfg. General Business Conditions
Diffusion Index



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