Comerica Economic Alert

Comerica Bank

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# March 2019 Industrial Production, NAHB Index

*Output Drifted Sideways Through Q1*

- Industrial Production decreased by 0.1 percent in March, with manufacturing output unchanged.
- Builder Optimism increased in April.

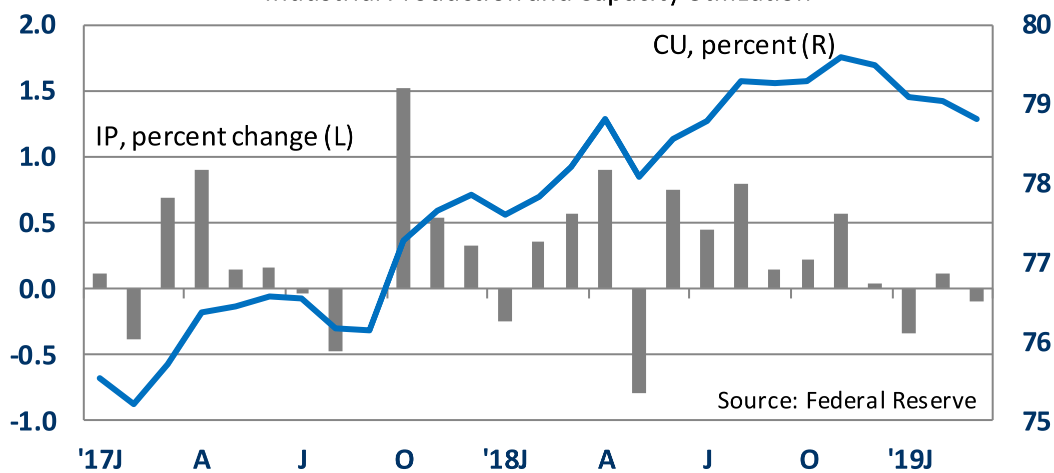
Total U.S. industrial production dipped by 0.1 percent in March as output in in manufacturing was unchanged. Total output has been stagnant through the winter, little changed for the four consecutive months ending in March. Some of the recent weakness in headline IP is due to the impact of extreme weather on utility output. However, manufacturing output, which accounts for 75 percent of the total was also flat to down through the first quarter of this year. The same pattern is evident in both durable and nondurable goods manufacturing. Durable goods account for 38 percent of total industrial production, while nondurables account for slightly less, at 35 percent. The shares of the top ten categories of durables are in the same ballpark, at about 3-5 percent each. Nondurable manufacturing is dominated by foods and chemicals. Motor vehicle assemblies dipped in March to a 10.85 million unit pace. This is the weakest pace since last July, and clearly down from the peak 13.55 million unit pace from July 2015. We do not expect a return to that peak any time soon. Utility output gained 0.2 percent in March, after a 3.7 percent increase in February. Mining output was down by 0.8 percent in March, the third consecutive flat-to-down month for that industry group. Total capacity utilization was little changed in March at 78.8 percent. Capacity utilization tends to be very cyclical and it looks like we are at the top of the cycle now.

The National Association of Homebuilders preliminary Housing Market Index for April ticked up to 63. This index tracks builder sentiment for single-family construction. The trend in the index through the first four months of this year is up since it bottomed out last December. Lower mortgage rates this year are breathing some life back into housing. We expect spring sales to be positive, after limping through last year. Combined new and existing home sales jumped in February as affordability improved. Improving home sales will bolster builder confidence and construction rates, at least in the near term. We remain cautious about the housing market after this year. Given the near-record length of the current economic expansion, we assume that demand for new homes has largely been spent out, leaving less of an upside even with better affordability due to lower mortgage rates. With higher labor and materials costs and a shortage of infill lots, the cost of new construction will remain under pressure.

**Market Reaction:** Equity markets opened with gains. The yield on 10-Year Treasury bonds is up to 2.58 percent. NYMEX crude oil is up to $63.59/barrel. Natural gas futures are down to $2.58/mmbtu.

## Industrial Production Weak Through the Winter

Industrial Production and Capacity Utilization

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