

# US industrial production

## Industrial output fell 1.5% in March to cap dismal Q1

- **March fall in industrial production was faster than consensus forecast.**
- **First quarter GDP set to show sharp decline.**

US industrial production posted a fifth consecutive monthly fall in March, down 1.5% as manufacturing and energy output declined. That was steeper than analysts' estimates of a 0.9% drop, while February's decrease was revised to 1.5% from 1.4%.

The overall first quarter performance was the worst in the current recession which began in December 2007. The latest figures chimed with recent evidence from the ISM survey of purchasing managers: the headline manufacturing PMI registered its lowest quarterly average for almost 29 years in Q1 (see chart 1).

Capacity utilisation slipped to 69.3% in March, the lowest since records began in 1967 (see chart 2). Business inventories also fell, down 1.3%, while the inventory-to-sales ratio dipped to 1.43 from 1.45. However, that remained significantly higher than the low of 1.25 last June before the worst of the financial crisis. That signals a continued overhang of stock which is likely to weigh on production in the coming months.

Continued weakness in the industrial sector suggests that Q1 GDP will show another steep decline following the 1.6% fall in Q4 2008. Although PMI data covering whole economy's output\* have improved from last November's nadir, they remain consistent with a quarterly GDP drop in the region of 1-1.5% (see chart 3).

*\*combined data from ISM manufacturing and non-manufacturing surveys*

Chart 1: US industrial production

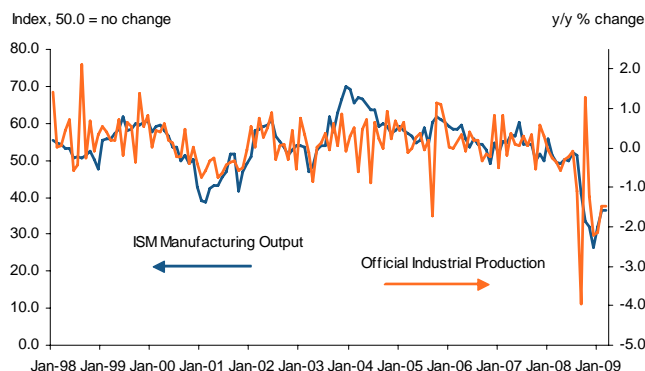


Chart 2: Capacity utilisation

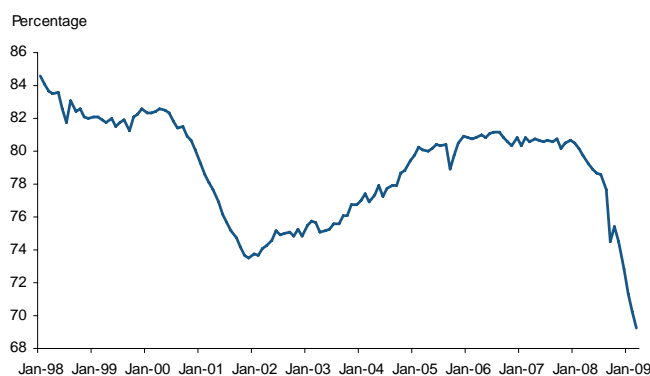
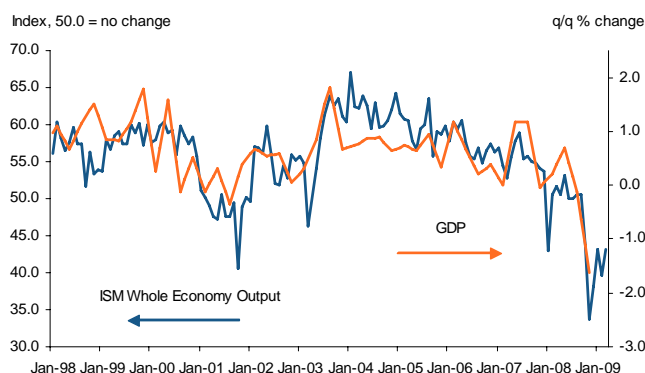


Chart 3: US GDP



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