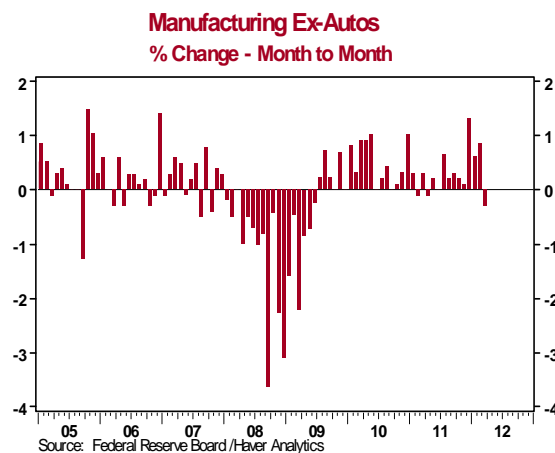


March Industrial Production / Capacity Utilization

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- Industrial production was unchanged in March, but up 0.4% including upward revisions to prior months. The consensus expected a gain of 0.3%. Production is up 3.8% in the past year.
- Manufacturing, which excludes mining/utilities, fell 0.2% in March but was up 0.3% including upward revisions to prior months. Auto production rose 0.6% in March while non-auto manufacturing fell 0.3%. Auto production is up 13.7% versus a year ago while non-auto manufacturing is up 4.2%.
- The production of high-tech equipment rose 1.3% in March, and is up 0.4% versus a year ago.
- Overall capacity utilization ticked down to 78.6% in March from 78.7% in February. Manufacturing capacity use declined to 77.8% in March from 78.0% in February.

Implications: Today's report on the factory sector was deceptive. Industrial production was unchanged in March, which was less than the consensus expected, but prior months were revised up 0.4%. This seems to be the pattern over the last several months and we would not be surprised at all if the unchanged number in March is revised higher in the future. The manufacturing sector fell 0.2% in March, but was up 0.3% including upward revisions for prior months. The data we watch most closely is manufacturing production ex-autos. This figure fell 0.3% in March, but this is the first drop in nine months. That's a good track record, given that manufacturing ex-autos usually falls three or four times a year even during normal economic expansions. The fact that it hasn't over the past few years is a testament to the current strength in the manufacturing sector. Higher production is making factories use higher levels of capacity. Utilization in manufacturing is now at 77.8%, which is higher than the 20-year average of 77.7%. As capacity use moves higher, firms have an increasing incentive to invest in more plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-12	Feb-12	Jan-12	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.0%	0.0%	0.7%	3.0%	4.7%	3.8%
Manufacturing	-0.2%	0.9%	1.1%	7.4%	7.8%	5.1%
Motor Vehicles and Parts	0.6%	0.8%	6.1%	34.0%	30.1%	13.7%
Ex Motor Vehicles and Parts	-0.3%	0.9%	0.6%	4.8%	5.8%	4.2%
Mining	0.3%	-4.1%	0.4%	-13.2%	1.5%	4.2%
Utilities	1.5%	0.1%	-1.9%	-1.2%	-9.4%	-4.6%
Business Equipment	0.2%	1.3%	2.0%	14.7%	13.5%	9.6%
Consumer Goods	-0.2%	0.5%	0.3%	2.6%	1.1%	2.2%
High-Tech Equipment	1.3%	-0.6%	-0.7%	0.0%	-2.4%	0.4%
Total Ex. High-Tech Equipment	-0.1%	0.0%	0.7%	2.5%	4.8%	3.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.6	78.7	78.7	78.7	78.3	77.5
Manufacturing	77.8	78.0	77.5	77.8	76.9	75.9

Source: Federal Reserve Board