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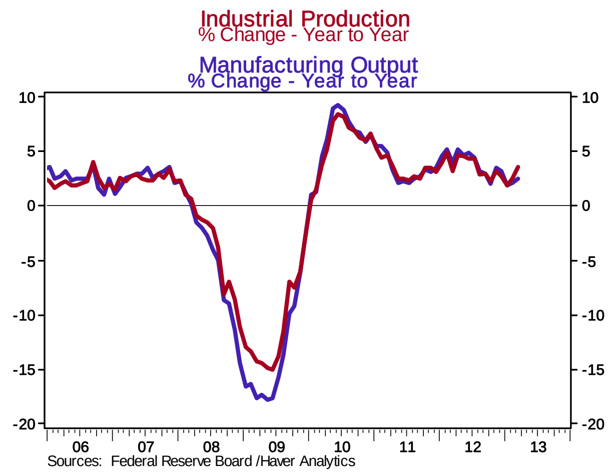
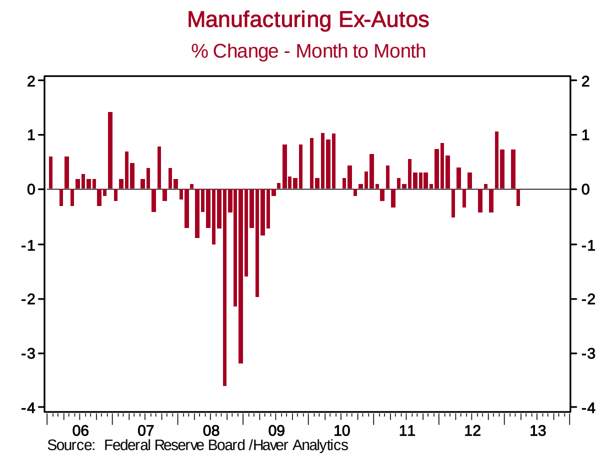
March Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Industrial production rose 0.4% in March, beating the consensus expected gain of 0.2%. Including revisions to prior months, production was up 0.5%. Production is up 3.5% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.2% in March but was unchanged including upward revisions to prior months. Auto production rose 2.9% in March, while non-auto manufacturing declined 0.3%. Auto production is up 10.2% versus a year ago while non-auto manufacturing is up 1.9%.
- The production of high-tech equipment rose 0.2% in March, and is up 2.7% versus a year ago.
- Overall capacity utilization increased to 78.5% in March from 78.3% in February. Manufacturing capacity use declined to 76.4% in March from 76.6% in February.





Implications: The Plow Horse economy continues. Industrial production rose 0.4% (+0.5% including revisions to prior months) and now stands at the highest level since March of 2008, very close to an all-time record high. However, on net, all the gain in March was due to higher output at utilities, the result of the relatively cold weather throughout much of the country. Manufacturing production declined 0.2% (unchanged including revisions to prior months) led by a 2.7% drop in primary metals. Auto production was up 2.9%. Next month, expect the reverse of what we had this month, with a rebound in manufacturing but a drop in utilities. The best way to check today's report is to look at the underlying trend, which is still upward. Overall production is up 3.5% in the past year while manufacturing is up 3%. The autos sector has led the manufacturing gains, up 10.2% in the past year, but even manufacturing outside the auto sector has done OK, up 1.9% in the past year. We expect the gap between those two growth rates to narrow considerably in 2013, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Capacity utilization rose to 78.5% in March, close to the average of 79.0% in the past 20 years, and the highest percent of capacity since 2008. Continued gains in production will push capacity use higher, which means companies will have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing they have the ability to make these investments. In other news yesterday, the Empire State index, a measure of manufacturing sentiment in New York, declined to +3.0 in April from +7.0 in March. However, the index still suggests growth.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	**Mar-13**	**Feb-13**	**Jan-13**	**3-mo % Ch** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Industrial Production	**0.4%**	1.1%	-0.1%	5.8%	5.2%	3.5%
Manufacturing	**-0.2%**	0.9%	-0.3%	2.1%	4.9%	3.0%
Motor Vehicles and Parts	**2.9%**	2.0%	-3.9%	3.4%	19.3%	10.2%
Ex Motor Vehicles and Parts	**-0.3%**	0.7%	0.0%	1.7%	3.7%	1.9%
Mining	**-0.2%**	0.9%	-0.9%	-0.7%	2.8%	3.9%
Utilities	**5.4%**	2.6%	2.5%	50.6%	14.2%	10.4%
Business Equipment	**0.1%**	1.9%	-1.4%	2.4%	4.4%	5.0%
Consumer Goods	**1.2%**	1.1%	0.1%	9.8%	6.2%	4.3%
High-Tech Equipment	**0.2%**	1.1%	0.6%	7.8%	8.1%	2.7%
Total Ex. High-Tech Equipment	**0.4%**	1.0%	-0.1%	5.5%	5.1%	3.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.5**	78.3	77.6	78.1	77.8	77.7
Manufacturing	**76.4**	76.6	76.0	76.3	76.0	75.9

Source: Federal Reserve Board