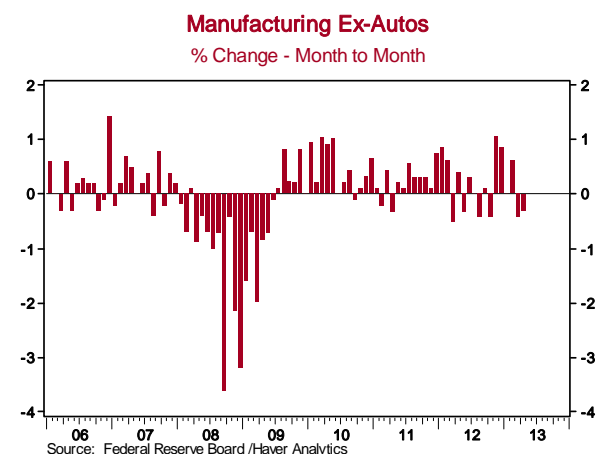
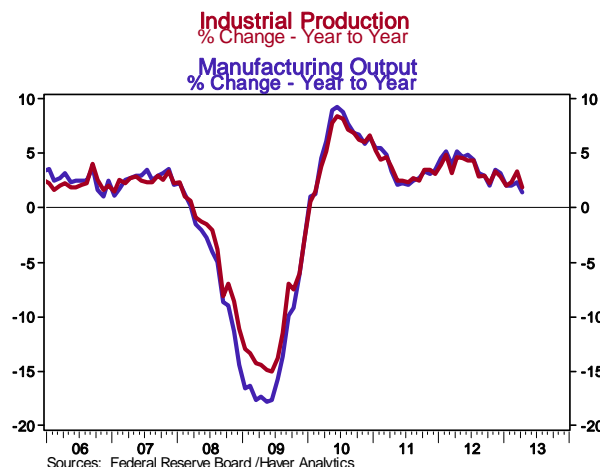


April Industrial Production / Capacity Utilization

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- Industrial production declined 0.5% in April, coming in below the consensus expected decline of 0.2%. Including revisions to prior months, production was down 0.8%. Production is up 1.9% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.4% in April (-0.5% including downward revisions to prior months). Auto production declined 1.2% in April, while non-auto manufacturing declined 0.3%. Auto production is up 5.2% versus a year ago while non-auto manufacturing is up 1.1%.
- The production of high-tech equipment rose 1.0% in April, and is up 2.0% versus a year ago.
- Overall capacity utilization declined to 77.8% in April from 78.3% in March. Manufacturing capacity use declined to 75.9% in April from 76.3% in March.

Implications: Not a pretty report for industrial production in April. Output at factories, mines, and utilities, fell 0.5%, the largest decline in 8 months (-0.8% including revisions to prior months). Worse, the drop can't be attributed to the volatile mine and utility sectors; manufacturing production declined 0.4% (-0.5% including revisions to prior months). However, we believe the report is an outlier and expect a rebound next month. Production is up 1.9% over the past year and up at a 2.5% annual rate over the past three months, exactly what we would expect in a plow horse economy. The autos sector has led the manufacturing gains, up 5.2% in the past year, but even manufacturing outside the auto sector has done OK, up 1.1% in the past year. We expect the gap between those two growth rates to narrow considerably in the year ahead, with slower growth (but still growth!) in autos and faster growth elsewhere in manufacturing. Capacity utilization fell to 77.8% in April, not far off from the average of 79.0% in the past 20 years. Continued gains in production should 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 today, the Empire State index, a measure of manufacturing sentiment in New York, declined to -1.4 in May from +3.0 in April. On the housing front, the NAHB index, which measures confidence among home builders, rose to 44 in May from 41 in April. The indexes for future sales, foot traffic, and current sales all increased, another sign that the housing market continues to recover.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-13	Mar-13	Feb-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.5%	0.3%	0.9%	2.5%	4.0%	1.9%
Manufacturing	-0.4%	-0.2%	0.7%	0.8%	4.7%	1.8%
Motor Vehicles and Parts	-1.2%	2.2%	1.9%	11.9%	13.9%	5.2%
Ex Motor Vehicles and Parts	-0.3%	-0.4%	0.6%	-0.4%	3.7%	1.1%
Mining	0.9%	-0.6%	1.7%	8.3%	3.2%	4.2%
Utilities	-3.7%	6.4%	1.0%	14.6%	2.2%	3.4%
Business Equipment	-0.5%	0.1%	1.8%	5.7%	5.7%	3.5%
Consumer Goods	-0.6%	1.0%	0.8%	4.4%	5.1%	2.3%
High-Tech Equipment	1.0%	-0.3%	-0.3%	1.8%	1.9%	2.0%
Total Ex. High-Tech Equipment	-0.6%	0.4%	0.9%	2.9%	4.0%	1.9%
Cap Utilization (Total)	77.8	78.3	78.2	3-mo Average	6-mo Average	12-mo Average
Manufacturing	75.9	76.3	76.6	78.1	77.9	77.7
				76.3	76.2	75.9

Source: Federal Reserve Board