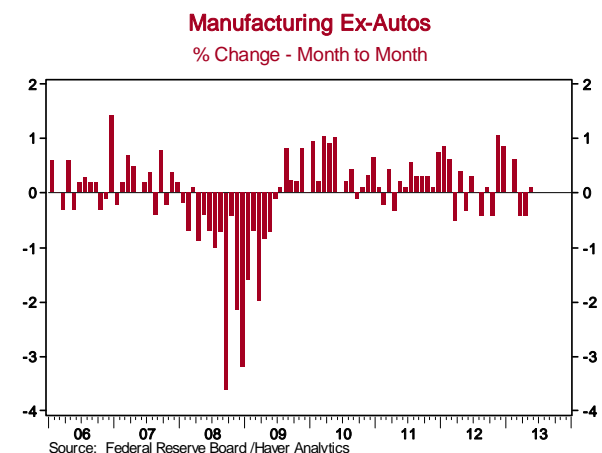
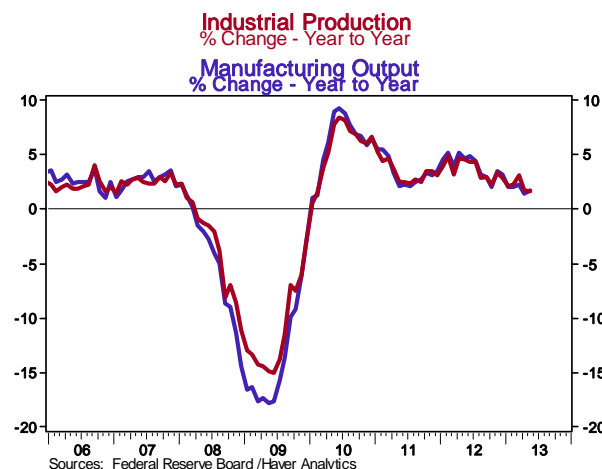


May Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Industrial production was unchanged in May, coming in below the consensus expected gain of 0.2%. Production is up 1.6% in the past year.
- Manufacturing, which excludes mining/utilities, rose 0.1% in May (+0.2% including upward revisions to prior months). Auto production rose 0.7% in May, while non-auto manufacturing increased 0.1%. Auto production is up 6.7% versus a year ago while non-auto manufacturing is up 1.4%.
- The production of high-tech equipment rose 0.8% in May, and is up 3.6% versus a year ago.
- Overall capacity utilization declined to 77.6% in May from 77.7% in April. Manufacturing capacity use remained unchanged at 75.8% in May.

Implications: Another lackluster report on overall industrial production, but the details are consistent with continued plow horse growth. Output at factories, mines, and utilities was unchanged in May as utilities held down the overall figure. Manufacturing production rose 0.1% (0.2% including revisions to prior months). Production is up only 1.6% over the past year and down at a 0.8% annual rate over the past three months. But we do not expect this to last as the housing recovery is still in its very early stages and demand for autos and other durables remains strong. The auto sector has led the manufacturing gains, up 6.7% in the past year, but even manufacturing outside the auto sector has done OK, up 1.4% 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 77.6% in May, 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.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-13	Apr-13	Mar-13	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.0%	-0.4%	0.2%	-0.8%	1.2%	1.6%
Manufacturing	0.1%	-0.3%	-0.3%	-1.6%	2.1%	2.2%
Motor Vehicles and Parts	0.7%	-0.4%	1.4%	7.1%	5.1%	6.7%
Ex Motor Vehicles and Parts	0.1%	-0.4%	-0.4%	-2.9%	1.5%	1.4%
Mining	0.7%	1.0%	-0.4%	5.3%	1.7%	4.7%
Utilities	-1.8%	-3.2%	5.0%	-0.8%	-4.5%	-3.6%
Business Equipment	0.2%	-0.3%	0.0%	-0.4%	1.8%	3.2%
Consumer Goods	-0.1%	-0.6%	0.6%	-0.4%	1.5%	1.2%
High-Tech Equipment	0.8%	1.5%	0.6%	12.7%	5.4%	3.6%
Total Ex. High-Tech Equipment	0.0%	-0.4%	0.1%	-1.2%	1.0%	1.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.6	77.7	78.1	77.8	77.8	77.7
Manufacturing	75.8	75.8	76.2	75.9	76.2	75.9

Source: Federal Reserve Board