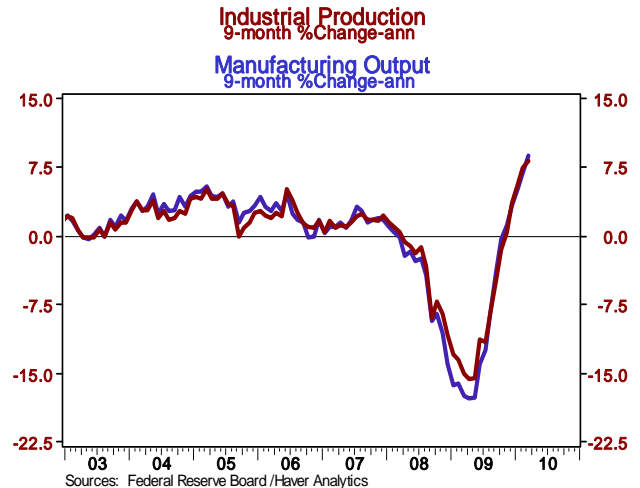


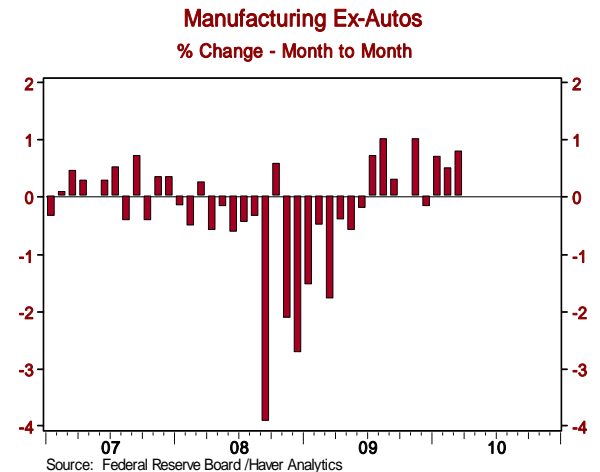
MARCH INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- A large drop in utility output held industrial production to a 0.1% gain in March. Nonetheless, revisions added 0.5% to prior months. Production is up at a 6.0% annual rate in the past six months.
- Manufacturing output increased 0.9% in March and was up 1.1% including revisions to prior months. Auto output rose 2.2% in March while output excluding autos increased 0.8%. In the past six months, total manufacturing is up at a 6.4% annual rate and up at a 5.7% rate ex-autos.
- The production of high-tech equipment increased 1.9% in March and, once again, was revised up for previous months.
- Overall capacity utilization increased to 73.2% in March. Capacity utilization is up 4.9 percentage points from the low of 68.3% last June. This is the fastest 9-month increase since 1984 – meaning that by definition the recovery is V-shaped. Manufacturing capacity use rose to 70.0%.



Implications: Although overall industrial production increased only 0.1% in March, this was due to a 6.4% decline in utility output, the third steepest drop on record (since 1972). Severe winter weather across the nation caused utility output to surge in February, while unusually mild March temperatures caused it to plunge. Looking through this statistical noise, the manufacturing sector is clearly booming. Since bottoming in June 2009, factory output is up at a 9.2% annual rate, the fastest pace for any nine months since 1997-98. If this isn't a V-shaped bounce, we don't know what is. And with inventories low, we expect this to continue. In fact, early news on the factory sector in April is bullish. The Empire State index, a measure of manufacturing in New York, increased to 31.9 for April versus 22.9 in March. Of particular note, the employment sub-index hit 20.3, the highest level in four years. Meanwhile, the Philadelphia Fed index, a measure of manufacturing in that region, increased to 20.2 in April from 18.9 in March. In other news this morning, new claims for unemployment insurance increased 24,000 last week to 484,000. Continuing claims for regular state benefits increased 73,000 to 4.64 million. We believe the recent rise in claims is related to volatility surrounding the Easter holiday. If so, we should see a significant drop in claims over the next couple of weeks.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-10	Feb-10	Jan-10	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.1%	0.3%	1.0%	5.3%	6.0%	4.0%
Manufacturing	0.9%	0.2%	0.9%	9.5%	6.4%	5.0%
Motor Vehicles and Parts	2.2%	-3.9%	4.8%	12.2%	5.3%	24.3%
Ex Motor Vehicles and Parts	0.8%	0.5%	0.7%	8.2%	5.7%	3.6%
Mining	2.3%	1.7%	2.3%	27.9%	15.0%	5.2%
Utilities	-6.4%	0.0%	0.4%	-22.2%	2.5%	-0.8%
Business Equipment	1.4%	0.6%	1.5%	15.3%	10.9%	3.6%
Consumer Goods	-0.2%	0.0%	0.9%	2.8%	4.5%	3.4%
High-Tech Equipment	1.9%	3.0%	2.3%	33.1%	22.0%	14.2%
Total Ex. High-Tech Equipment	0.0%	0.2%	0.9%	4.7%	5.6%	3.6%
Cap Utilization (Total)	73.2	73.0	72.7	3-mo Average	6-mo Average	12-mo Average
Manufacturing	70.0	69.4	69.1	73.0	72.2	70.8
				69.5	68.8	67.5

Source: Federal Reserve Board