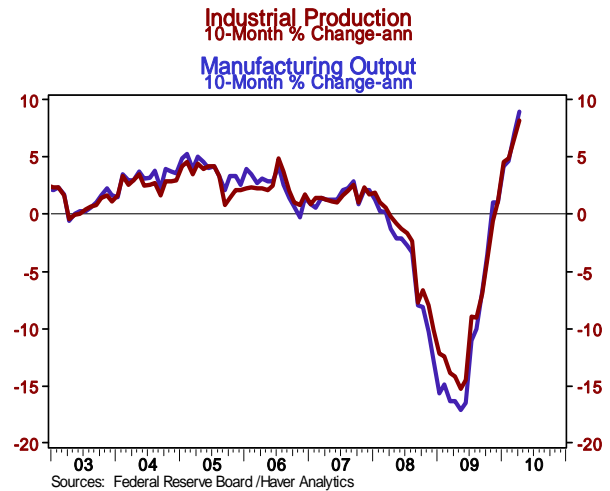


APRIL INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

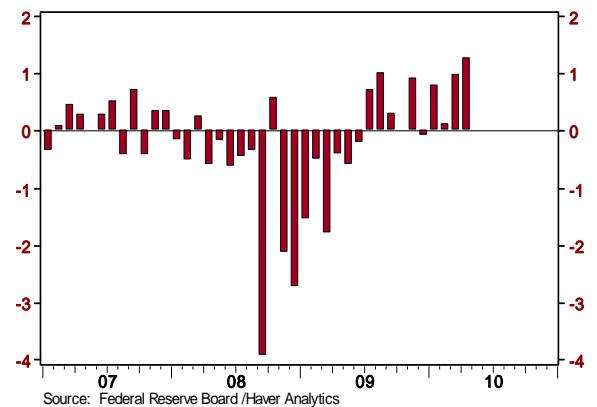
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Industrial production increased 0.8% in April, narrowly beating consensus expectations of 0.7%. Production is up at a 7.0% annual rate in the past six months.
- Manufacturing output increased 1.0% in April and is up at an 8.7% annual rate in the past six months. Auto output, which is volatile from month to month, declined 2.3% in April. Manufacturing output excluding autos increased 1.3%.
- The production of high-tech equipment increased 0.9% in April and is up at a 20.4% annual rate in the past six months.
- Overall capacity utilization increased to 73.7% in April and is up 5.4 percentage points from the low of 68.3% last June. This is the fastest 10-month increase since 1983-84. Manufacturing capacity use rose to 70.8%.



Implications: Manufacturing is booming right now. Since the low in June 2009, manufacturing production is up at a 9.5% annual rate, which is faster growth than even during the tech boom of the late 1990s. We expect rapid gains in production to continue. First, inventory-to-sales ratios are at rock-bottom record lows in both the retail and wholesale sectors. This means production has room to run *higher* than the pace of sales as companies try to re-stock shelves that are too bare. Anecdotal reports are that shortages are particularly acute for big-ticket household items like washers and dryers. Second, although up 21% versus last year, the pace of auto sales is still significantly below what’s needed to keep up with scrappage rates and the rise in the driving-age population. We expect next week’s reports on manufacturing in New York State and the Philadelphia region to show continued rapid gains.

Manufacturing Ex-Autos
% Change - Month to Month



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-10	Mar-10	Feb-10	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.8%	0.2%	-0.1%	3.6%	7.0%	5.2%
Manufacturing	1.0%	1.0%	0.0%	9.0%	8.7%	6.5%
Motor Vehicles and Parts	-2.3%	1.9%	-3.1%	-13.3%	4.8%	21.4%
Ex Motor Vehicles and Parts	1.3%	1.0%	0.1%	9.8%	8.2%	5.3%
Mining	1.5%	1.4%	1.9%	20.7%	16.3%	8.5%
Utilities	-1.3%	-6.0%	-1.7%	-30.8%	-5.5%	-2.5%
Business Equipment	1.1%	1.2%	0.3%	10.4%	10.3%	6.1%
Consumer Goods	0.2%	0.1%	-1.3%	-3.8%	2.6%	3.8%
High-Tech Equipment	0.9%	2.2%	2.5%	25.0%	20.4%	13.0%
Total Ex. High-Tech Equipment	0.8%	0.1%	-0.2%	2.9%	6.4%	4.8%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	73.7	73.1	72.8	73.2	72.6	71.1
Manufacturing	70.8	70.0	69.2	70.0	69.3	67.9

Source: Federal Reserve Board