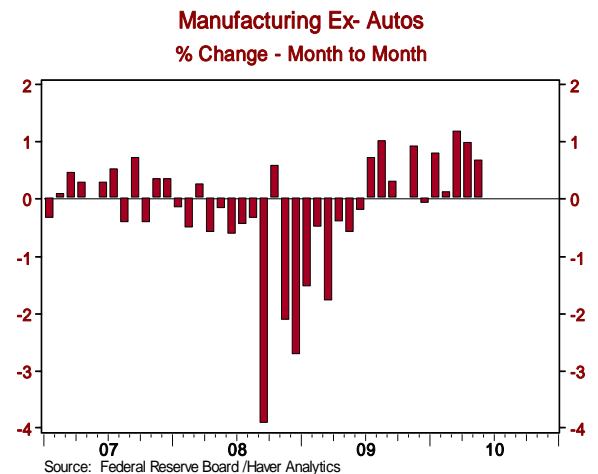


## MAY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 1.2% in May, beating consensus expectations of 0.9%. Production is up at an 8.0% annual rate in the past six months.
- Manufacturing output increased 0.9% in May and is up at an 8.4% annual rate in the past six months. Auto output, which is volatile from month to month, spiked up 5.5% in May, while manufacturing output excluding autos increased 0.7%.
- The production of high-tech equipment increased 1.7% in May, was revised up for April, and is up at a 24.4% annual rate in the past six months.
- Overall capacity utilization increased to 74.7% in May and is up 6.4 percentage points from the low of 68.3% last June. This is the fastest 11-month increase since 1983-84. Manufacturing capacity use rose to 71.5%.

**Implications:** Manufacturing continues to lead the V-shaped recovery. Since the low in June 2009, manufacturing production is up at an 8.8% 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. Second, although up 18% 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. In other recent news on the factory sector, the Empire State Index, a measure of manufacturing in New York, increased to 19.6 in June from 19.1 in May, indicating a mild acceleration in already rapidly growing activity in June.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-10	Apr-10	Mar-10	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	1.2%	0.7%	0.3%	9.0%	8.0%	7.6%
<b>Manufacturing</b>	0.9%	0.9%	1.2%	12.9%	8.4%	8.4%
<b>Motor Vehicles and Parts</b>	5.5%	-1.4%	1.6%	24.5%	13.2%	39.5%
<b>Ex Motor Vehicles and Parts</b>	0.7%	1.0%	1.2%	11.9%	7.5%	6.5%
<b>Mining</b>	-0.1%	1.5%	1.2%	10.6%	11.7%	9.6%
<b>Utilities</b>	4.8%	-1.3%	-6.2%	-11.3%	9.0%	4.2%
<b>Business Equipment</b>	1.3%	1.7%	1.1%	17.4%	14.4%	10.1%
<b>Consumer Goods</b>	1.1%	0.0%	0.4%	6.0%	5.5%	6.3%
<b>High-Tech Equipment</b>	1.7%	2.1%	2.4%	28.1%	24.4%	18.0%
<b>Total Ex. High-Tech Equipment</b>	1.2%	0.6%	0.2%	8.5%	7.7%	7.3%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	74.7	73.7	73.1	73.8	73.2	71.6
<b>Manufacturing</b>	71.5	70.8	70.1	70.8	69.9	68.4

Source: Federal Reserve Board