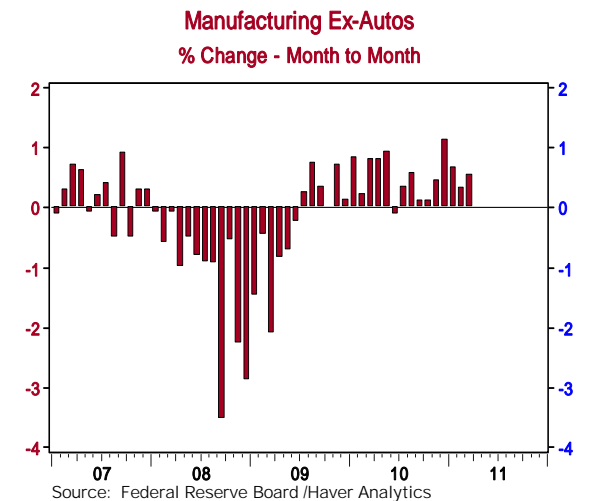


MARCH INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.8% in March, beating the consensus expected gain of 0.6%. Including revisions to prior months, production still rose 0.6%. Production is up 5.9% in the past year.
- Manufacturing, which excludes mining/utilities, was up 0.7% in March. The gain in March was led by auto production, which increased 2.9%. Non-auto manufacturing increased 0.6%. Auto production is up 16.2% versus a year ago while non-auto manufacturing has risen 6.1%.
- The production of high-tech equipment increased 0.9% in March and is up 16.9% versus a year ago.
- Overall capacity utilization increased to 77.4% in March. Manufacturing capacity use increased to 75.3%, the highest since July 2008.

Implications: Industrial production grew a strong 0.8% in March, beating consensus expectations. Although mining and utilities both accelerated, the lion's share of the growth came from manufacturing, which rose 0.7% and is up at a 9.2% annual rate in the past three months. Much of the factory gain was due to the auto sector, which expanded 2.9%. Motor vehicle production has exploded upward in the past three months, rising at a 55% annual rate. Given temporary shortages of parts related to the earthquake, tsunami, and nuclear/electricity problems in Japan, some US automakers may shift traditional summer shutdowns into the spring. As a result, auto production may slip in Q2 and then surge again in Q3. So for the next few months, we will focus on manufacturing *excluding autos* to see whether the underlying trend remains strong. In March, manufacturing output ex-autos was up 0.6% and is up at a generous 6.1% versus a year ago. We think production is going to continue to move higher and will likely keep being led by business equipment. Inventories are low, corporate profits are at a record high and so is cash on the balance sheets of non-financial companies. In other manufacturing news this morning, the Empire State index, a measure of activity in New York, increased to +21.7 in April from +17.5 in March. The consensus had expected a slight dip to +17.0. The sub-indexes for new orders, shipments, and the number of workers all surged to substantially higher levels.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-11	Feb-11	Jan-11	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.8%	0.1%	0.1%	4.4%	5.3%	5.9%
Manufacturing	0.7%	0.6%	0.8%	9.2%	7.8%	7.1%
Motor Vehicles and Parts	2.9%	4.5%	3.7%	54.7%	18.4%	16.2%
Ex Motor Vehicles and Parts	0.6%	0.3%	0.7%	6.4%	6.7%	6.1%
Mining	0.6%	0.3%	-1.2%	-1.5%	1.0%	5.5%
Utilities	1.7%	-3.6%	-2.2%	-15.4%	-3.5%	1.5%
Business Equipment	0.5%	1.0%	1.8%	14.1%	12.3%	13.4%
Consumer Goods	0.9%	0.0%	0.0%	3.5%	3.9%	4.0%
High-Tech Equipment	0.9%	2.2%	3.3%	29.0%	27.7%	16.9%
Total Ex. High-Tech Equipment	0.9%	-0.1%	0.1%	3.5%	4.5%	5.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	77.4	76.9	76.9	77.1	76.6	75.7
Manufacturing	75.3	74.9	74.5	74.9	74.1	73.0

Source: Federal Reserve Board