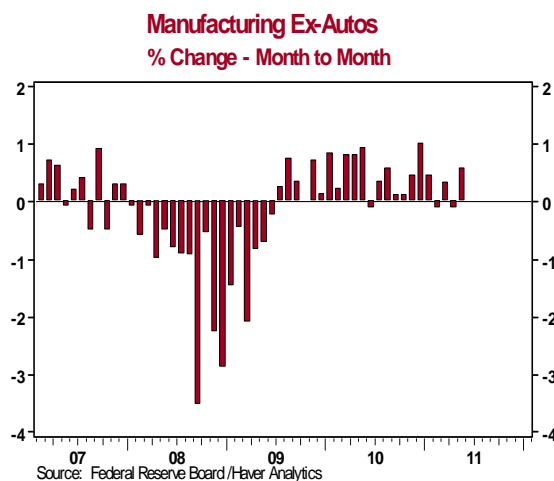
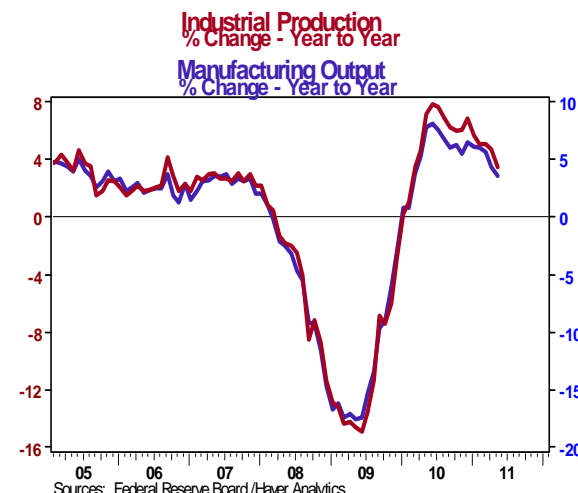


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May Industrial Production / Capacity Utilization

- Industrial production rose 0.1% in May, coming in slightly below the consensus expected gain of 0.2%. Including revisions to prior months, production declined 0.1%. Production is up 3.4% in the past year.
- Manufacturing, which excludes mining/utilities, was up 0.4% in May. Including downward revisions to prior months, manufacturing fell 0.1%. Auto production fell 1.4% in May. Non-auto manufacturing increased 0.6%. Auto production is up 2.2% versus a year ago while non-auto manufacturing has risen 3.7%.
- The production of high-tech equipment increased 1.3% in May and is up 9.8% versus a year ago.
- Overall capacity utilization was unchanged at 76.7% in May. Manufacturing capacity use ticked up to 74.5%.

Implications: Industrial production grew 0.1% in May, which was less than the consensus expected. However, this shortfall was due to two temporary factors. First, utility output, which is extremely volatile from month to month, dropped 2.7%. Second, as we have pointed out in our previous reports on industrial production, the auto sector is undergoing huge supply-chain disruptions due to the multiple disasters in Japan. So after dropping 6.5% in April, auto production fell another 1.4% in May. However, outside the auto sector, manufacturing output increased 0.6% and is up 3.7% versus a year ago. We will continue to watch this indicator – manufacturing ex-autos – as a signal of the true underlying trend in the factory sector. Meanwhile, after slipping recently, auto production will surge sharply in Q3 to make up for lost time and low inventories. Investment in equipment by the business sector will continue to push production higher. Inventories are low and both corporate profits and cash on the balance sheets of non-financial companies are at record highs. In other news this morning on the manufacturing sector, the Empire State index, a measure of manufacturing activity in New York, fell to -7.8 in June from +11.9 in May. We believe the decline in the index is temporary and due to supply chain disruptions originating in Japan.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-11	Apr-11	Mar-11	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Industrial Production	0.1%	0.0%	0.6%	2.6%	3.5%	3.4%
Manufacturing	0.4%	-0.6%	0.6%	1.8%	4.8%	4.0%
Motor Vehicles and Parts	-1.4%	-6.5%	3.0%	-18.4%	5.9%	2.2%
Ex Motor Vehicles and Parts	0.6%	-0.1%	0.3%	3.2%	4.3%	3.7%
Mining	0.6%	0.8%	1.6%	12.2%	1.7%	5.3%
Utilities	-2.7%	2.4%	-0.4%	-3.1%	-0.8%	-0.3%
Business Equipment	1.3%	-0.3%	-0.3%	2.6%	9.2%	9.3%
Consumer Goods	-0.1%	0.0%	0.3%	0.9%	2.6%	1.6%
High-Tech Equipment	1.3%	0.9%	0.2%	10.0%	11.8%	9.8%
Total Ex. High-Tech Equipment	0.0%	0.0%	0.5%	2.2%	3.1%	3.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.7	76.7	76.8	76.7	76.7	76.1
Manufacturing	74.5	74.2	74.7	74.5	74.3	73.4

Source: Federal Reserve Board