

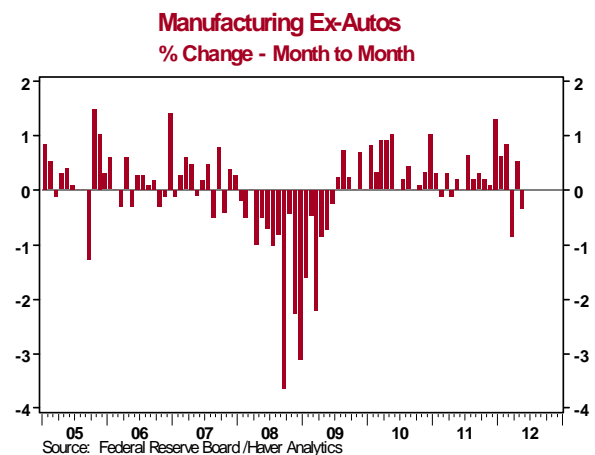
May Industrial Production / Capacity Utilization

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- Industrial production declined 0.1% in May, coming in short of the consensus expected gain of 0.1%. Production is up 4.7% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.4% in May but was down 0.2% including upward revisions to prior months. Auto production fell 1.4% in May while non-auto manufacturing fell 0.3%. Auto production is up 25.0% versus a year ago while non-auto manufacturing is up 3.8%.
- The production of high-tech equipment rose 0.5% in May, and is up 0.8% versus a year ago.
- Overall capacity utilization moved down to 79.0% in May from 79.2% in April. Manufacturing capacity use fell to 77.6% in May from 78.0% in April.



Implications: Overall industrial production dipped 0.1% in May. Manufacturing, which excludes mining and utilities, fell 0.4 percent. Both figures came in slightly below consensus expectations. However, industrial production is still up 4.7% from a year ago, growing more than twice as fast as the overall economy. The data we watch most closely is manufacturing production ex-autos. This figure fell 0.3% in May, but has risen in 9 of the last 11 months. That's a very good track record, given that manufacturing ex-autos usually falls three or four times a year even during normal economic expansions. In other words, it is much too early to read anything significant into the slippage in production in May. Given low inventories, particularly in the auto sector, we don't expect any persistent stagnation. Although capacity utilization declined in May, it is still up substantially from a year ago. As a result, companies have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments. In other news today, the Empire State index, a measure of manufacturing activity in New York, fell to +2.3 from +17.1 in May. This suggests growth continued in June, but at a slower pace than in May. However, these kinds of surveys are also influenced by corporate sentiment rather than actual activity, and, given news out of Europe, we would not be surprised if this were having a negative effect.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-12	Apr-12	Mar-12	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	1.0%	-0.5%	1.2%	4.7%	4.7%
Manufacturing	-0.4%	0.7%	-0.6%	-0.8%	6.6%	5.4%
Motor Vehicles and Parts	-1.4%	3.9%	1.3%	16.1%	31.8%	25.0%
Ex Motor Vehicles and Parts	-0.3%	0.5%	-0.9%	-2.5%	4.4%	3.8%
Mining	0.9%	-0.6%	0.0%	1.1%	-1.8%	4.5%
Utilities	0.8%	5.4%	-0.6%	24.0%	2.0%	1.1%
Business Equipment	0.3%	1.5%	0.3%	8.6%	13.7%	11.2%
Consumer Goods	-0.2%	1.4%	-1.0%	0.9%	2.6%	2.3%
High-Tech Equipment	0.5%	2.2%	0.3%	12.8%	6.0%	0.8%
Total Ex. High-Tech Equipment	-0.1%	0.9%	-0.6%	0.8%	4.5%	4.8%
Cap Utilization (Total)	79.0	79.2	78.5	3-mo Average	6-mo Average	12-mo Average
Manufacturing	77.6	78.0	77.5	78.9	78.8	78.0
				77.7	77.6	76.4

Source: Federal Reserve Board