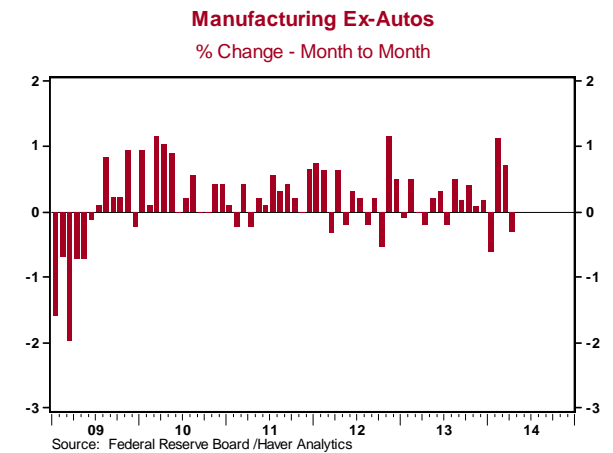
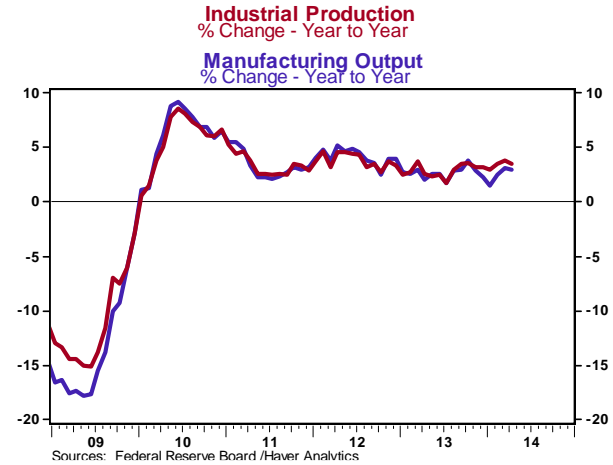


April Industrial Production / Capacity Utilization

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Industrial production declined 0.6% in April (-0.5% including revisions to prior months) coming in well below the consensus expected no change. Production is up 3.4% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.3% in April (-0.1% with revisions to prior months). Auto production rose 0.1% in April while non-auto manufacturing fell 0.3%. Auto production is up 6.9% versus a year ago while non-auto manufacturing is up 2.7%.
- The production of high-tech equipment declined 0.2% in April but is up 5.2% versus a year ago.
- Overall capacity utilization declined to 78.6% in April from 79.3% in March. Manufacturing capacity fell to 76.4% in April.

Implications: After two very strong reports in February and March, industrial production dropped a disappointing 0.6% in April, well below consensus expectations. Better weather was the primary, but not the only, culprit: Utility output fell 5.2%, the largest drop for any month in the past eight years. Manufacturing production outside the auto sector declined 0.3%. Still, even with all the negatives for April, the trend in production appears to be accelerating. In the past three months industrial output is up at a 5.6% annual rate versus a gain of 3.4% in the past year; manufacturing ex-autos is up at a 6.4% rate in the past three months while up 2.7% from a year ago. Now that utility output has corrected for a return to normal weather, look for a return to growth in the industrial sector in the months ahead. The housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. In particular, note that the output of high-tech equipment is up 5.2% from a year ago, signaling companies' willingness to upgrade aging equipment from prior years. Although capacity utilization fell to 78.6% in April from 79.3% in March, that's still very close to the average of 78.9% over the past twenty years. Further gains in production in the year ahead will push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. Meanwhile, corporate profits and cash on the balance sheet are at record highs, showing that companies have the ability to make these investments. Other, more timely, manufacturing news signal gains in production in May. The Empire State index, a measure of factory sentiment in New York, spiked to +19.0 in May from +1.3 in April, the highest level since June 2010. Meanwhile, the Philadelphia Fed index, which also measures regional manufacturing sentiment, slipped to a still high 15.4 in May from 16.6 in April.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-14	Mar-14	Feb-14	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.6%	0.9%	1.1%	5.6%	3.8%	3.4%
Manufacturing	-0.3%	0.7%	1.5%	8.0%	3.1%	3.1%
Motor Vehicles and Parts	0.1%	0.4%	6.8%	32.4%	7.8%	6.9%
Ex Motor Vehicles and Parts	-0.3%	0.7%	1.1%	6.4%	2.5%	2.7%
Mining	1.4%	2.0%	-0.1%	14.1%	11.1%	8.3%
Utilities	-5.2%	0.6%	-0.3%	-18.3%	0.4%	-0.2%
Business Equipment	-0.6%	1.0%	2.4%	12.2%	4.3%	4.0%
Consumer Goods	-1.3%	0.4%	1.9%	3.8%	3.2%	2.4%
High-Tech Equipment	-0.2%	0.3%	1.8%	8.1%	3.7%	5.2%
Total Ex. High-Tech Equipment	-0.6%	0.9%	1.0%	5.4%	3.9%	3.4%
Cap Utilization (Total)	78.6	79.3	78.8	3-mo Average	6-mo Average	12-mo Average
Manufacturing	76.4	76.9	76.5	78.9	78.6	78.3
				76.6	76.4	76.2

Source: Federal Reserve Board