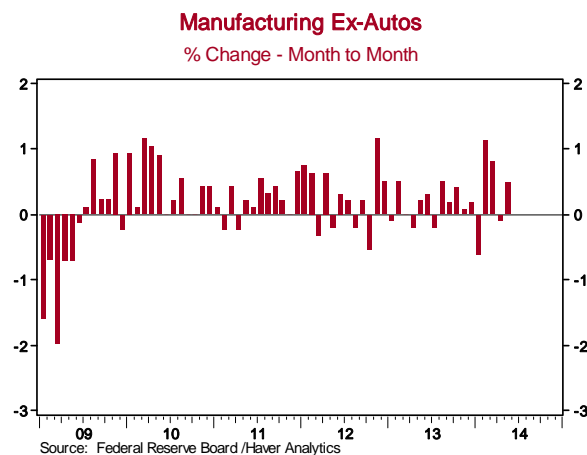
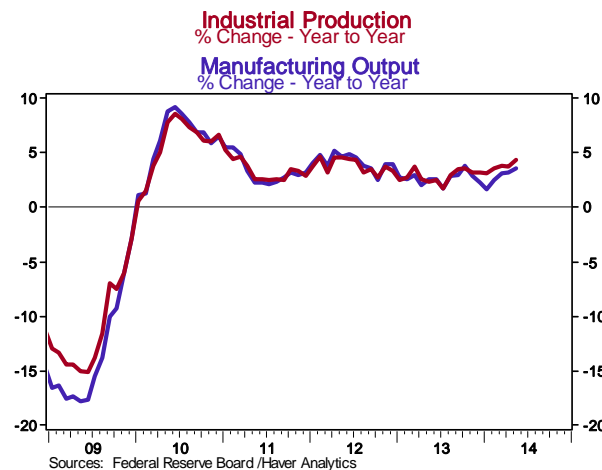


May Industrial Production / Capacity Utilization

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- Industrial production rose 0.6% in May (+1.0% including revisions to prior months), beating the consensus expected gain of 0.5%. Production is up 4.3% in the past year.
- Manufacturing, which excludes mining/utilities, increased 0.7% in May (+1.0% with revisions to prior months). Auto production rose 1.5% in May while non-auto manufacturing rose 0.5%. Auto production is up 7.8% versus a year ago while non-auto manufacturing is up 3.4%.
- The production of high-tech equipment increased 1.6% in May and is up 5.3% versus a year ago.
- Overall capacity utilization rose to 79.1% in May from 78.9% in April. Manufacturing capacity increased to 77.0% in May.

Implications: A very good report out of the industrial sector today. Industrial production rose 0.6% in May and was up an even stronger 1% including revisions to prior months, better than consensus expectations. More importantly, there appears to be a broad acceleration in manufacturing activity. Factory output is up 3.9% from a year ago, but up at a 5.7% annual rate in the past three months. All of this recent acceleration is outside the volatile auto sector; manufacturing production ex-autos is up 3.4% from a year ago, but up at a 5% annual rate in the past three months. Look for more robust 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 5.3% from a year ago and up at a 10.7% annual rate in the past three months, signaling companies' willingness to upgrade aging equipment from prior years. Capacity utilization now stands at 79.1% in May, up from 78.9% in April, and higher than 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 close to record highs, showing that companies have the ability to make these investments. Other, more timely, manufacturing news signal more gains in production in June. The Empire State index, a measure of factory sentiment in New York, rose to +19.3 in June from +19 in May, This is the highest level in four years. On the housing front, the NAHB index, which measures confidence among home builders, came in at 49 in June, the best reading in four months and up four points from May.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-14	Apr-14	Mar-14	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.6%	-0.3%	0.8%	4.8%	4.6%	4.3%
Manufacturing	0.7%	-0.1%	0.8%	5.7%	4.3%	3.9%
Motor Vehicles and Parts	1.5%	-0.1%	0.3%	7.1%	4.6%	7.8%
Ex Motor Vehicles and Parts	0.5%	-0.1%	0.8%	5.0%	4.0%	3.4%
Mining	1.3%	1.6%	1.9%	21.0%	13.3%	9.7%
Utilities	-0.8%	-4.6%	-0.5%	-21.2%	-5.5%	0.6%
Business Equipment	0.8%	0.1%	1.0%	7.8%	7.5%	5.3%
Consumer Goods	0.1%	-1.1%	0.5%	-2.0%	2.9%	3.2%
High-Tech Equipment	1.6%	0.3%	0.6%	10.7%	6.6%	5.3%
Total Ex. High-Tech Equipment	0.6%	-0.3%	0.9%	4.9%	4.5%	4.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	79.1	78.9	79.3	79.1	78.8	78.4
Manufacturing	77.0	76.7	76.9	76.9	76.5	76.3

Source: Federal Reserve Board