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April Industrial Production / Capacity Utilization

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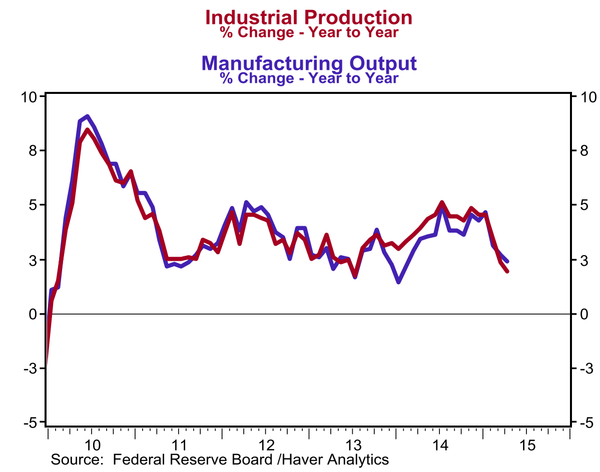
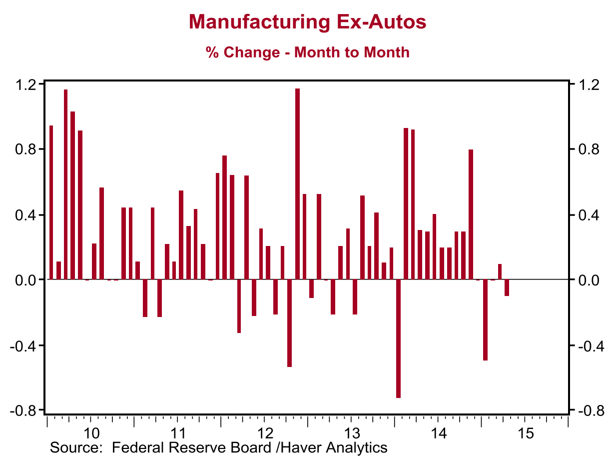
- Industrial production declined 0.3% in April, but was unchanged including revisions to prior months. The consensus expected no change. Production is up 1.9% in the past year.
- Manufacturing, which excludes mining/utilities, was unchanged in April (+0.2% including revisions to prior months). Auto production rose 1.3% in April while non-auto manufacturing declined 0.1%. Auto production is up 7.2% versus a year ago while non-auto manufacturing is up 2.0%. Utility output fell 1.3% in April, while mining declined 0.8%.
- The production of high-tech equipment increased 0.2% in April and is up 0.7% versus a year ago.
- Overall capacity utilization declined to 78.2% in April from 78.6% in March. Manufacturing capacity utilization declined to 77.2% in April.





Implications: Outside the auto sector, industrial production was soft in April, with overall production declining 0.3%, the fifth consecutive monthly decline. However, the weakness in April was largely due to temporary factors. Due to milder temperatures, utility output declined 1.3%, on the back of a large 5.4% decline in March. Meanwhile, the rapid decline in oil prices and the commensurate drop in oil production caused the index for "oil & gas drilling and servicing" to decline 14.5% in April. This measure is now down 46.5% from a year ago and pulled down the mining component of industrial production, which fell by 0.8% in April. The good news is that energy prices look to have stabilized, so mining production should soon bottom out. And if energy prices bounce at all, mining will bounce as well. Taking out mining and utilities gives us manufacturing, which was unchanged in April as auto output rose 1.3% while the rest of manufacturing fell about 0.1%. Lingering parts shortages due to the West Coast port strikes that ended in late February may have hampered manufacturing outside the auto sector again in April. If so, that's another reason to expect a bounce in production in the months ahead as supply channels improve. The fundamentals for production growth remain in place. Companies are sitting on huge cash reserves and profits are close to record highs. In addition, at 78.2%, capacity utilization remains close to the average of 78.6% over the past twenty years, so further gains in production will give companies an incentive to build out plants and buy equipment. In other manufacturing news today, the Empire State index, a measure of manufacturing sentiment in New York, came in at 3.1 in May versus -1.2 in April.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Apr-15	Mar-15	Feb-15	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.3%**	-0.3%	-0.1%	-2.6%	0.2%	1.9%
Manufacturing	**0.0%**	0.3%	-0.3%	0.0%	1.2%	2.5%
Motor Vehicles and Parts	**1.3%**	4.3%	-3.5%	7.8%	11.7%	7.2%
Ex Motor Vehicles and Parts	**-0.1%**	0.1%	0.0%	0.0%	0.6%	2.0%
Mining	**-0.8%**	-0.1%	-2.1%	-11.5%	-4.5%	1.3%
Utilities	**-1.3%**	-5.4%	4.9%	-7.9%	-1.0%	0.1%
Business Equipment	**-0.4%**	0.4%	0.6%	2.6%	-0.2%	2.3%
Consumer Goods	**-0.4%**	0.0%	0.4%	0.0%	4.0%	1.6%
High-Tech Equipment	**0.2%**	-0.5%	-0.8%	-4.5%	-4.6%	0.7%
Total Ex. High-Tech Equipment	**-0.3%**	-0.3%	0.0%	-2.3%	0.2%	2.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.2**	78.6	78.9	78.6	79.0	79.1
Manufacturing	**77.2**	77.3	77.2	77.2	77.5	77.5

Source: Federal Reserve Board