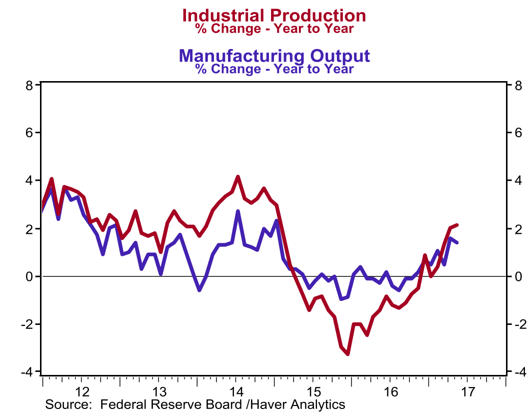
First Trust DATAWATCH
June 15, 2017 • 630.517.7756 • www.ftportfolios.com

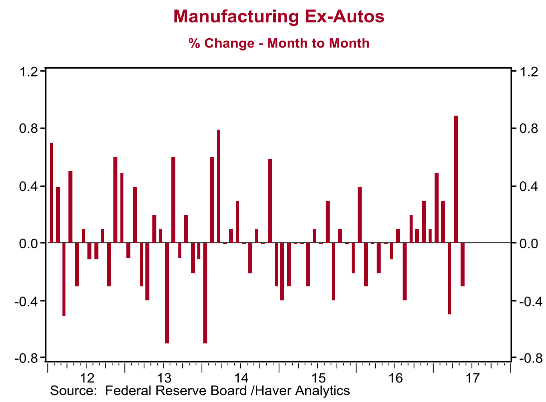
May Industrial Production / Capacity Utilization

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

- Industrial production was unchanged in May, coming in below the consensus expected gain of 0.2%. Utility output rose 0.4%, while mining rose 1.6%.
- Manufacturing, which excludes mining/utilities, fell 0.4% in May. Auto production declined 2.0% while non-auto manufacturing slipped 0.3%. Auto production is up 4.4% versus a year ago while non-auto manufacturing is up 1.2%.
- The production of high-tech equipment was unchanged in May but is up 7.0% versus a year ago.
- Overall capacity utilization ticked down to 76.6% in May from 76.7% in April. Manufacturing capacity utilization fell to 75.5% in May from 75.8% in April.



Source: Federal Reserve Board /Haver Analytics



Source: Federal Reserve Board /Haver Analytics

Implications: Industrial production took a breather in May, going unchanged overall, after surging in April. Manufacturing, which excludes mining and utilities, was the main culprit behind today's lackluster headline number, dropping 0.4%, due to both a 2% decline in the auto sector as well as 0.3% drop in what we call "core" industrial production, which is manufacturing excluding autos. However, this is not the beginning of the end for manufacturing, which is still up 1.4% in the past year. Auto production is notoriously volatile from month-to-month and core production rose 0.9% in April, the largest monthly gain since 2010, so it's not surprising it took a breather either. Going forward, we think core production, which is still up 1.2% from a year ago, will continue on an upward trend, in part, due to a lagged effect of the rebound in oil prices, which adds to the production of equipment and materials used in the energy sector. The bright spot in today's report came from mining which jumped 1.6% in May, and has been accelerating, up at a 15% annual rate the past six months versus 8.3% in the past year. Oil and gas-well drilling posted its twelfth consecutive gain in May, jumping 3.8%, and is now up a massive 121% at an annual rate in the past three months. Based on other commodity prices, we think oil prices are below "fair value" range, and with oil companies profitable at current prices mining should stay in recovery after the problems of the past two years. In other news this morning, two regional measures of the factory sector were both deep in positive territory. The Empire State index, a measure of manufacturing sentiment in New York, surged to 19.8 in June from -1 in May. The Philly Fed index, a measure of sentiment among East Coast manufacturers, came in at +27.6 for June. That's a decline from +38.8 in May, but still very high. On the employment front, initial jobless claims fell 8,000 to 237,000. Continuing claims rose 6,000 to 1.94 million. These figures suggest a rebound in job creation in June. Finally, on inflation, import prices fell 0.3% in May but are up 2.1% from a year ago. Export prices fell 0.7% in May, and have increased 1.4% in the past year. Both figures are a stark contrast to the negative direction of prices in the year ending in May 2016.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	May-17	Apr-17	Mar-17	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.0%**	1.1%	0.1%	5.1%	4.1%	2.1%
Manufacturing	**-0.4%**	1.1%	-0.8%	-0.4%	1.8%	1.4%
Motor Vehicles and Parts	**-2.0%**	4.1%	-3.5%	-6.3%	-0.5%	4.4%
Ex Motor Vehicles and Parts	**-0.3%**	0.9%	-0.5%	0.4%	2.0%	1.2%
Mining	**1.6%**	1.5%	-0.6%	10.5%	15.0%	8.3%
Utilities	**0.4%**	0.8%	8.1%	43.1%	6.8%	0.1%
Business Equipment	**-0.6%**	1.5%	-0.3%	2.4%	2.9%	1.3%
Consumer Goods	**0.2%**	1.6%	0.4%	9.2%	3.5%	1.2%
High-Tech Equipment	**0.0%**	1.3%	0.8%	8.8%	4.0%	7.0%
Total Ex. High-Tech Equipment	**0.0%**	1.1%	0.1%	4.7%	4.0%	2.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**76.6**	76.7	75.9	76.4	76.1	75.9
Manufacturing	**75.5**	75.8	75.0	75.4	75.4	75.2

Source: Federal Reserve Board