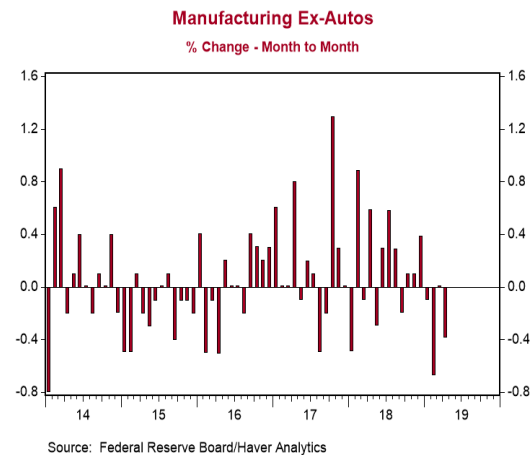
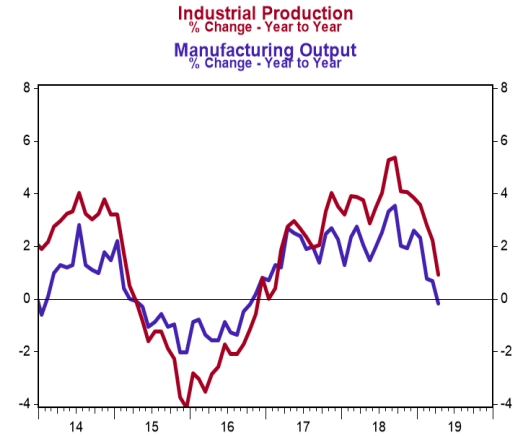


## April Industrial Production / Capacity Utilization

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- Industrial production declined 0.5% in April (-0.9% including revisions to prior months), below the consensus expectation of the series remaining unchanged. Mining output rose 1.6% in April, while utilities fell 3.4%.
- Manufacturing, which excludes mining/utilities, fell 0.5% in April (-0.8% including revisions to prior months). Auto production declined 2.6%, while non-auto manufacturing fell 0.4%. Auto production is down 4.4% versus a year ago, while non-auto manufacturing is up 0.1%.
- The production of high-tech equipment rose 0.5% in April and is up 3.2% versus a year ago.
- Overall capacity utilization declined to 77.9% in April from 78.5% in March. Manufacturing capacity utilization fell to 75.7% in April from 76.2% in March.



**Implications:** Industrial production disappointed in April, falling short of expectations and posting its third decline in four months. And the details of today’s report weren’t much better, with nearly all major categories posting declines. However, this doesn’t mean the end of the economic recovery, or even close. We’ve experienced sluggish periods in industrial production before, like in 2015-2016, and the economy continued to grow overall. Expect the same this time around, as well. Moreover, the production data are inconsistent with ISM indices and manufacturing employment. The biggest source of weakness in April came from manufacturing outside the auto sector (which represents the majority of activity), where activity fell 0.4%. Adding the 2.6% drop in the volatile auto sector on top of this generated a decline in overall manufacturing of 0.5% in April. The manufacturing headline series also ticked negative on a year-over-year basis in April, the first such negative reading since late 2016. In the past year auto production is down 4.4%, while manufacturing outside the auto sector is still up 0.1%, demonstrating the ongoing divergence in activity between the two sectors. Year-over-year growth rates peaked for both manufacturing and headline industrial production in September 2018 and have since declined rapidly, as the nearby chart shows. Some will suggest that the Trump administration’s tariffs on an additional \$200 billion in Chinese goods are responsible, and this is something to think about, but as we noted above, other indicators disagree. Manufacturing is only responsible for about 11% of GDP, and is especially sensitive to global demand, but the industrial production data are only one measure. The bright spot in today’s report came from mining, which rose 1.6% due to an increase in oil and gas extraction and coal mining. The mining series remains near a record high and at 10.4%, is showing the fastest year-over-year growth of any major category. In other recent news, the Empire State Index, which measures factory sentiment in the New York region, rose to 17.8 in May from 10.1 in April. This signals a continued rebound in optimism after the index touched a recent low in March. On the housing front, the NAHB index, which measures homebuilder sentiment, increased to 66 in May from 63 in April. The V-shaped recovery in builders’ optimism continues to have momentum after the index hit a three-year low of 56 in December. Yes, production data were weak, but they appear to be missing something.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-19	Mar-19	Feb-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	-0.5%	0.2%	-0.5%	-3.2%	-1.3%	0.9%
<b>Manufacturing</b>	-0.5%	0.0%	-0.5%	-3.7%	-1.7%	-0.2%
<b>Motor Vehicles and Parts</b>	-2.6%	-0.2%	1.7%	-4.7%	-8.0%	-4.4%
<b>Ex Motor Vehicles and Parts</b>	-0.4%	0.0%	-0.7%	-4.1%	-1.3%	0.1%
<b>Mining</b>	1.6%	-0.4%	-1.0%	0.6%	6.0%	10.4%
<b>Utilities</b>	-3.4%	2.2%	0.7%	-2.7%	-8.3%	-4.6%
<b>Business Equipment</b>	-2.0%	0.7%	-1.2%	-9.7%	-4.6%	0.2%
<b>Consumer Goods</b>	-1.1%	0.4%	0.2%	-2.3%	-3.5%	-2.5%
<b>High-Tech Equipment</b>	0.5%	-0.1%	0.6%	4.2%	-1.7%	3.2%
<b>Total Ex. High-Tech Equipment</b>	-0.6%	0.2%	-0.5%	-3.3%	-1.3%	0.8%
<b>Cap Utilization (Total)</b>	77.9	78.5	78.5	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	75.7	76.2	76.2	78.3	78.8	78.9
				76.0	76.5	76.6

Source: Federal Reserve Board