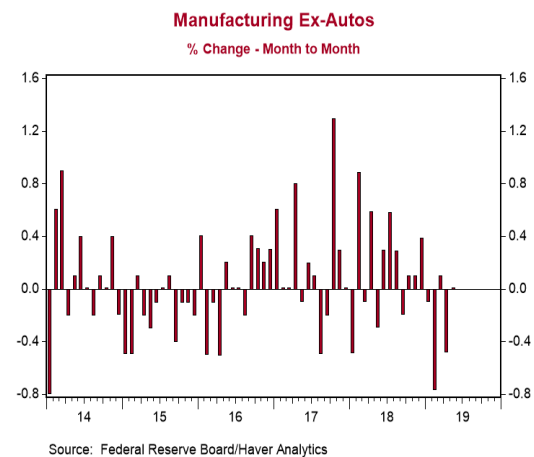
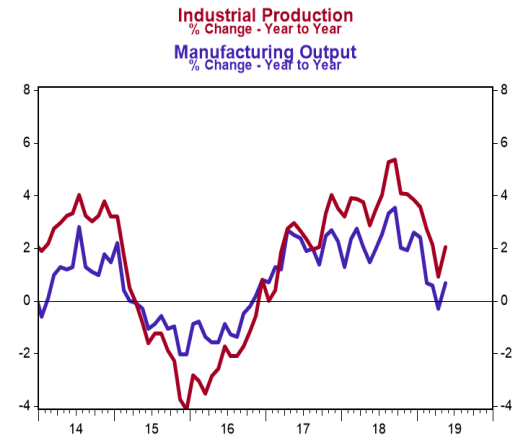


May Industrial Production / Capacity Utilization

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- Industrial production increased 0.4% in May, beating the consensus expected 0.2%. Mining output rose 0.1% in May, while utilities increased 2.1%.
- Manufacturing, which excludes mining/utilities, rose 0.2% in May. Auto production increased 2.4%, while non-auto manufacturing remained unchanged. Auto production is up 6.0% versus a year ago, while non-auto manufacturing is up 0.3%.
- The production of high-tech equipment rose 0.5% in May and is up 6.6% versus a year ago.
- Overall capacity utilization increased to 78.1% in May from 77.9% in April. Manufacturing capacity utilization rose to 75.7% in May from 75.6% in April.

Implications: Industrial production surprised to the upside in May, beating consensus expectations and posting the largest monthly increase so far in 2019. That said, the details of today’s report were not quite as strong as the headline suggested. Nearly all the month’s gain was due to utilities and auto manufacturing, which rose 2.1% and 2.4%, respectively. However, these two series are very volatile from month to month. Meanwhile, manufacturing outside the auto sector (which represents the majority of activity) remained unchanged. Putting the two series together shows overall manufacturing rose 0.2% in May and is now up 0.7% in the past year. On the bright side, even though non-auto manufacturing is only up a tepid 0.3% in the past year, the various capital goods production indices continue to show healthy growth. For example, over the past twelve months business equipment is up 3%, high-tech equipment is up 6.6%, and durable goods more generally are up 2.3%. By contrast non-durable goods production is down 0.6%, demonstrating that the ongoing weakness in non-auto manufacturing growth isn’t signaling the death of business investment. Year-over-year growth rates peaked for both manufacturing and headline industrial production in September 2018 and have since declined, 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 other indicators like the ISM Manufacturing data continue to show a healthier picture. It’s also important to keep in mind that manufacturing is only responsible for about 11% of GDP and is much more sensitive to global demand than other sectors of the economy. Finally, mining activity posted a 0.1% increase in May, hitting a new record high. In the past year mining is up 10%, showing the fastest year-over-year growth of any major category.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-19	Apr-19	Mar-19	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.4%	-0.4%	0.1%	0.4%	-1.6%	2.0%
Manufacturing	0.2%	-0.5%	0.0%	-1.1%	-1.9%	0.7%
Motor Vehicles and Parts	2.4%	-0.8%	-1.3%	0.9%	-3.3%	6.0%
Ex Motor Vehicles and Parts	0.0%	-0.5%	0.1%	-1.5%	-1.7%	0.3%
Mining	0.1%	2.2%	-0.4%	7.6%	5.0%	10.0%
Utilities	2.1%	-3.1%	1.6%	2.3%	-9.6%	0.3%
Business Equipment	0.3%	-1.6%	0.9%	-1.6%	-2.9%	3.0%
Consumer Goods	0.6%	-1.4%	0.6%	-1.1%	-4.2%	0.1%
High-Tech Equipment	0.5%	0.1%	0.7%	5.4%	7.3%	6.6%
Total Ex. High-Tech Equipment	0.4%	-0.5%	0.2%	0.4%	-1.8%	2.0%
Cap Utilization (Total)	78.1	77.9	78.4	3-mo Average	6-mo Average	12-mo Average
Manufacturing	75.7	75.6	76.1	78.1	78.6	78.9
				75.8	76.3	76.5

Source: Federal Reserve Board