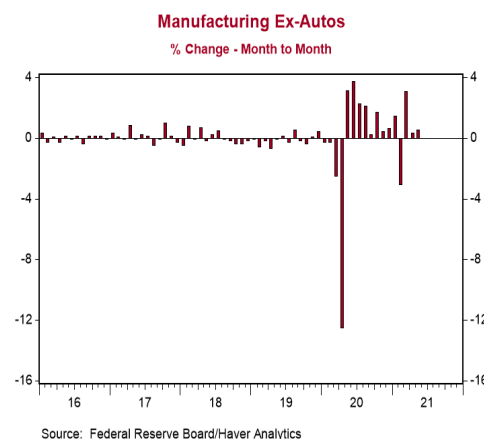
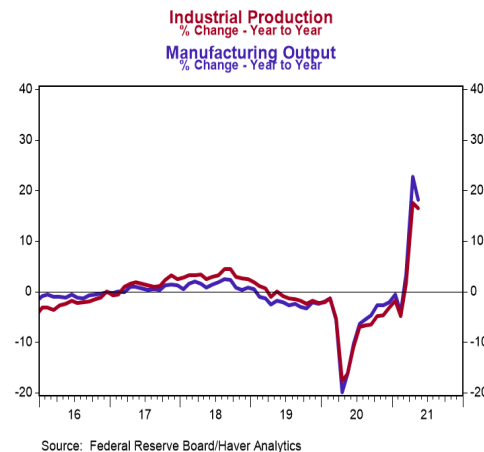


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Bryce Gill – Economist

May Industrial Production / Capacity Utilization

- Industrial production increased 0.8% in May (+0.9% including revisions to prior months), beating the consensus expected gain of 0.7%. Utilities output rose 0.2% in May, while mining rose 1.2%.
- Manufacturing, which excludes mining/utilities, increased 0.9% in May (+0.6% including revisions to prior months). Auto production rose 6.7%, while non-auto manufacturing rose 0.5%. Auto production is up 141.1% versus a year ago, while non-auto manufacturing is up 13.9%.
- The production of high-tech equipment rose 1.5% in May and is up 18.0% versus a year ago.
- Overall capacity utilization increased to 75.2% in May from 74.6% in April. Manufacturing capacity utilization rose to 75.6% in May from 74.9%.

Implications: Industrial production rose for a third consecutive month in May, powered higher by increases in every major category. But keep in mind, the production side of the economy still has a way to go. Yes, both industrial production and manufacturing activity are now up substantially from a year ago, but remain down 1.4% and 0.5%, respectively, from the pre-pandemic highs in February of 2020. Given that this morning's report on retail sales shows that spending is up 18.0% over the same period, there continues to be a wide gulf between the production and consumption sides of the US economy, and that gulf creates inflationary conditions. Looking at the details, the biggest positive contribution to today's report came from the manufacturing sector where output rose 0.8%. Notably, the auto manufacturing posted a gain of 6.7% in May, signaling that the semiconductor shortage that has kept finished vehicles from rolling off assembly lines may be beginning to ease. Meanwhile, manufacturing outside the auto sector rose 0.5%. The manufacturing sector continues to be hamstrung by not only supply chain issues, but also a severe labor shortage, with job openings in that sector at a record high and more than double pre-pandemic levels. Mining activity also continued to recover in May, rising 1.2%, and is likely to be an ongoing tailwind in the months ahead. Oil prices are now above where they were pre-pandemic and nearing levels not seen since 2014. With upward pressure on prices likely to continue as the US reopens, extraction activity has begun to rebound. This is reflected in the number of active oil and gas rigs in operation, which have doubled from the bottom in August of 2020, but still need to nearly double again to get back to pre-pandemic levels. Look for a continued upward trend in industrial production in the months ahead as reopening continues, supply chain issues are ironed out, labor disincentives dissipate, and factories continue to ramp up production. In other factory related news this morning, the Empire State Index, a measure of New York factory sentiment, fell to a still strong +17.4 in June from +24.3 in May. The drop was largely driven by declines in new orders and shipments which were partially offset by delivery delays rising to the highest level on record, signaling ongoing supply chain issues.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-21	Apr-21	Mar-21	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.8%	0.1%	2.6%	15.3%	5.6%	16.4%
Manufacturing	0.9%	-0.1%	3.1%	16.1%	4.2%	18.2%
Motor Vehicles and Parts	6.7%	-5.6%	3.6%	18.4%	-12.8%	141.1%
Ex Motor Vehicles and Parts	0.5%	0.3%	3.1%	16.5%	5.7%	13.9%
Mining	1.2%	-0.4%	11.9%	61.5%	12.3%	16.4%
Utilities	0.2%	1.9%	-8.8%	-24.9%	6.9%	3.7%
Business Equipment	1.0%	-1.6%	2.4%	7.2%	4.9%	29.7%
Consumer Goods	0.7%	-0.2%	1.2%	7.1%	4.1%	14.5%
High-Tech Equipment	1.5%	1.4%	2.3%	22.8%	17.9%	18.0%
Total Ex. High-Tech Equipment	0.8%	0.1%	2.6%	15.0%	5.5%	16.3%
Cap Utilization (Total)	75.2	74.6	74.6	3-mo Average 74.8	6-mo Average 74.4	12-mo Average 73.1
Manufacturing	75.6	74.9	75.0	75.2	74.7	73.3

Source: Federal Reserve Board