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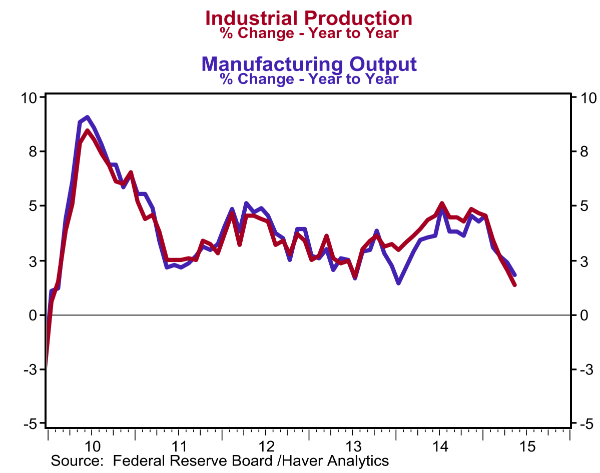
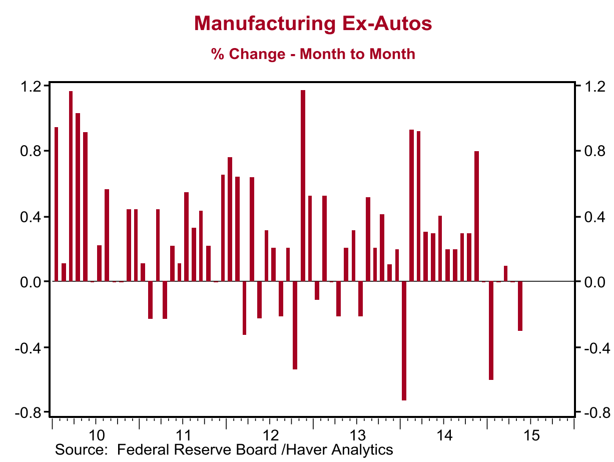
May Industrial Production / Capacity Utilization

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

- Industrial production declined 0.2% in May, (-0.1% including revisions to prior months), falling short of the consensus expected increase of 0.2%. Production is up 1.4% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.2% in May (-0.1% including revisions to prior months). Auto production rose 1.7% in May while non-auto manufacturing declined 0.3%. Auto production is up 7.6% versus a year ago while non-auto manufacturing is up 1.4%. Utility output rose 0.2% in May, while mining declined 0.3%.
- The production of high-tech equipment increased 0.4% in May but is down 0.1% versus a year ago.
- Overall capacity utilization declined to 78.1% in May from 78.3% in April. Manufacturing capacity utilization declined to 77.0% in May.





Implications: Industrial production was soft in May, with overall production declining 0.2%, the sixth consecutive month without a positive gain. A combination of factors held down production in May, more than fully offsetting a 1.7% jump in auto output. Due to the lagged effect of lower oil prices, the index for "oil & gas drilling and servicing" declined 7.9% in May and is now down a whopping 51.2% from a year ago. As a result, the mining component of industrial production fell by 0.3% in May. The good news is that energy prices appear to have stabilized, so mining output 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 down 0.2% in May, due to declines outside the auto sector. However, one of the weakest components was petroleum and coal products, which is often very volatile and doesn't appear directly related to the drop in drilling equipment, which would have showed up in machinery. Also, lingering parts shortages due to the West Coast port strikes may still be hampering production at some firms. If so, that's another reason to expect a bounce in production in the months ahead as supply channels improve. It's also important to recognize that despite recent softness, overall industrial production as well as manufacturing ex-autos are still up a respectable 1.4% from a year ago and the fundamentals favoring further growth remain in place. Companies are sitting on huge cash reserves and profits are close to record highs. In addition, at 78.1%, 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 -2 in June versus +3.1 in May.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	May-15	Apr-15	Mar-15	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.2%**	-0.5%	0.0%	-2.6%	-2.2%	1.4%
Manufacturing	**-0.2%**	0.1%	0.3%	0.8%	-1.3%	2.1%
Motor Vehicles and Parts	**1.7%**	2.0%	4.1%	35.4%	4.8%	7.6%
Ex Motor Vehicles and Parts	**-0.3%**	0.0%	0.1%	-0.8%	-1.6%	1.4%
Mining	**-0.3%**	-1.3%	-0.3%	-7.4%	-4.4%	-0.3%
Utilities	**0.2%**	-3.7%	-1.8%	-19.4%	-5.1%	1.3%
Business Equipment	**0.3%**	-0.1%	0.4%	2.2%	-2.0%	2.0%
Consumer Goods	**-0.2%**	-1.0%	1.0%	-0.8%	-0.4%	2.0%
High-Tech Equipment	**0.4%**	0.5%	-0.2%	2.7%	-1.9%	-0.1%
Total Ex. High-Tech Equipment	**-0.2%**	-0.5%	0.0%	-2.7%	-2.1%	1.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**78.1**	78.3	78.8	78.4	78.8	79.1
Manufacturing	**77.0**	77.2	77.2	77.1	77.3	77.4

Source: Federal Reserve Board