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May Industrial Production / Capacity Utilization

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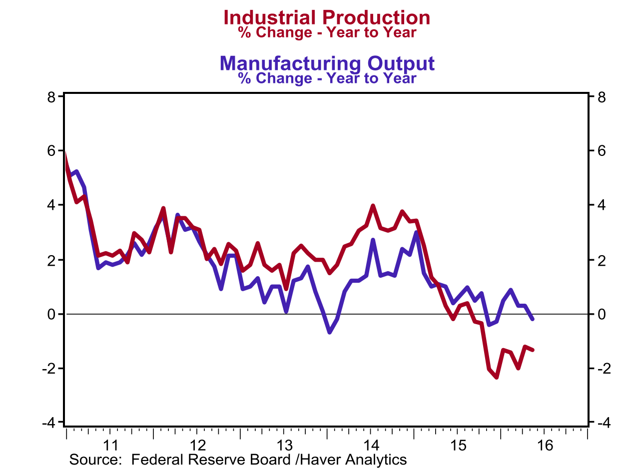
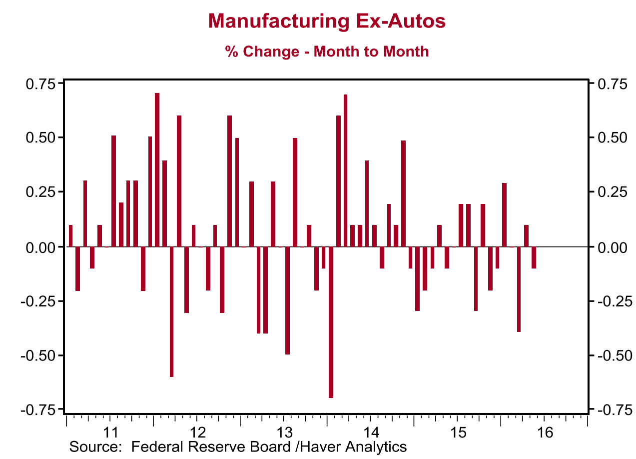
- Industrial production declined 0.4% in May, coming in below the consensus expected drop of 0.2%. Utility output fell 1.1% in May, while mining increased 0.2%.
- Manufacturing, which excludes mining/utilities, declined 0.4% in May. Auto production fell 4.2% while non-auto manufacturing dropped 0.1%. Auto production is down 1.4% versus a year ago while non-auto manufacturing is down 0.1%.
- The production of high-tech equipment increased 0.5% in May and is up 4.4% versus a year ago.
- Overall capacity utilization fell to 74.9% in May from 75.3% in April. Manufacturing capacity utilization dropped to 74.8% in May from 75.2% in April.





Implications: After a strong gain in April, industrial production disappointed in May, coming in below consensus expectations. The single biggest factor affecting today's report came from motor vehicle manufacturing, one of the most volatile categories, which fell 4.2% and is now down 1.4% versus last year. This is in contrast to a more tepid drop of 0.1% in non-auto manufacturing and explains the weak headline number. However, as we mentioned in yesterday's retail sales report, auto sales remain strong, including a 0.5% gain in May. As a result, expect auto manufacturing to bounce back in the coming months. Utilities output was also a drag on today's number, falling 1.1% in May after a 6.1% surge in April, reflecting seasonally moderate temperatures that reduced demand for home utility usage. One bright spot in today's report was the production of high-tech equipment, which increased 0.5% in May, and is now up 4.4% in the past year. On a surprising note, mining production posted its first gain since August 2015, up 0.2% in May. This measure, which includes oil drilling, may be a signal that the relentless slide in oil and gas extraction has begun to stabilize. While mining (and energy in general) has been a drag on production over the past year, we expect activity in that sector to stabilize in the months ahead as energy prices are well off the lows from earlier this year. Based on other commodity prices, oil prices should average at higher levels over the next several years. Although we don't expect overall production to boom any time soon – weak overseas economies will continue to be a headwind – we do expect a gradual pick-up in activity in 2016. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, rose unexpectedly to +6.0 in June from -9.0 in May, the third positive reading in four months.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	May-16	Apr-16	Mar-16	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.4%**	0.6%	-1.0%	-3.0%	-1.7%	-1.3%
Manufacturing	**-0.4%**	0.2%	-0.4%	-2.3%	-0.6%	-0.2%
Motor Vehicles and Parts	**-4.2%**	1.6%	-1.3%	-14.8%	-2.7%	-1.4%
Ex Motor Vehicles and Parts	**-0.1%**	0.1%	-0.4%	-1.6%	-0.4%	-0.1%
Mining	**0.2%**	-2.6%	-2.4%	-17.7%	-17.3%	-11.6%
Utilities	**-1.1%**	6.1%	-3.9%	3.6%	3.6%	-0.8%
Business Equipment	**-0.7%**	1.2%	-0.6%	-0.4%	0.8%	-1.4%
Consumer Goods	**-0.8%**	1.2%	-1.3%	-3.4%	0.6%	0.3%
High-Tech Equipment	**0.5%**	0.1%	0.2%	2.8%	9.2%	4.4%
Total Ex. High-Tech Equipment	**-0.4%**	0.6%	-1.1%	-3.4%	-1.9%	-1.5%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**74.9**	75.3	74.8	75.0	75.3	75.8
Manufacturing	**74.8**	75.2	75.1	75.0	75.2	75.4

Source: Federal Reserve Board