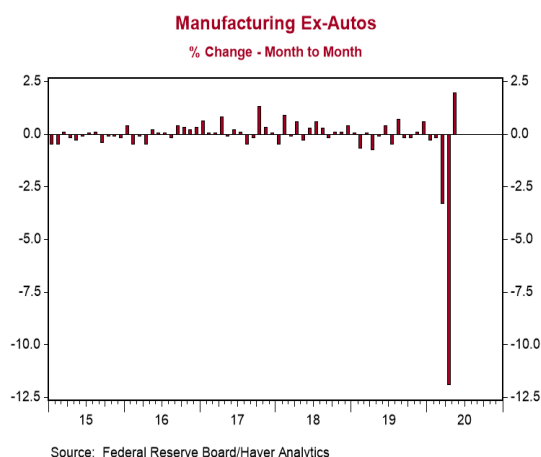
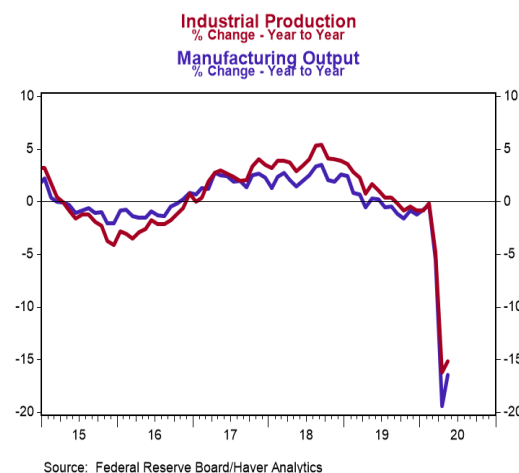


May Industrial Production / Capacity Utilization

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- Industrial production increased 1.4% in May, below the consensus expected gain of 3.0%. Mining output fell 6.8% in May, while utilities dropped 2.3%.
- Manufacturing, which excludes mining/utilities, increased 3.8% in May. Auto production jumped 120.9%, while non-auto manufacturing rose 1.9%. Auto production is down 62.8% versus a year ago, while non-auto manufacturing is down 12.8%.
- The production of high-tech equipment declined 0.7% in May and is down 0.1% versus a year ago.
- Overall capacity utilization increased to 64.8% in May from 64.0% in April. Manufacturing capacity utilization rose to 62.2% in May from 60.0% in April.

Implications: Following a dismal series of reports due to pandemic related closures, industrial production posted a gain in today's report, adding more evidence that the economy started recovering in May. Headline industrial production and its manufacturing subcomponent rose 1.4% and 3.8%, respectively in May, a welcome reprieve after April had the largest monthly declines for both series on record. Within manufacturing, auto production surged 120.9%, by far the largest monthly gain on record, as car and truck factories began resuming operations. Meanwhile, non-auto manufacturing rose 1.9% in May, as well. Outside the factory sector activity remained subdued in May. Mining declined 6.8%, as extraction activity for oil, natural gas, and other minerals continued to fall. The good news is that WTI crude oil prices have posted a healthy recovery since front-month futures prices briefly went negative in April. That said, prices are still down roughly 40% since the beginning of January and below the break-even level for many US producers. Despite this, the number of oil and gas rigs in the US has begun to level off after falling 65% since the pandemic began. As economic activity continues to rebound, demand for energy will eventually grow as well, making mining once again a tailwind for industrial production. Utilities output was also a drag on activity in May, falling 2.3%. This is likely due to less utility demand from offices and stores around the country as people largely continue to work and shop from home. In other recent manufacturing news, the Empire State Index, which measures factory sentiment in the New York region, rose to -0.2 in June from -48.5 in May. While this indicates a continued (slight) contraction, it is also the largest one-month increase in the index on record, signaling rapid improvement, though from a very low baseline. All-in-all it looks like the huge declines have passed and manufacturing activity in New York has stabilized, which is a necessary step before output starts improving again.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-20	Apr-20	Mar-20	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.4%	-12.5%	-4.6%	-48.7%	-29.1%	-15.2%
Manufacturing	3.8%	-15.5%	-5.3%	-52.4%	-30.9%	-16.5%
Motor Vehicles and Parts	120.9%	-76.5%	-30.0%	-98.3%	-86.7%	-62.8%
Ex Motor Vehicles and Parts	1.9%	-11.9%	-3.3%	-43.1%	-24.5%	-12.8%
Mining	-6.8%	-6.1%	-1.9%	-45.8%	-25.7%	-14.1%
Utilities	-2.3%	0.0%	-3.0%	-19.5%	-22.1%	-8.0%
Business Equipment	5.9%	-23.0%	-7.8%	-68.1%	-47.6%	-27.0%
Consumer Goods	3.9%	-12.7%	-6.0%	-46.9%	-28.4%	-14.0%
High-Tech Equipment	-0.7%	-4.2%	-0.6%	-20.0%	-11.7%	-0.1%
Total Ex. High-Tech Equipment	1.4%	-12.7%	-4.6%	-49.0%	-29.5%	-15.5%
Cap Utilization (Total)	64.8	64.0	73.2	3-mo Average	6-mo Average	12-mo Average
Manufacturing	62.2	60.0	71.1	67.3	72.1	74.8
				64.4	69.8	72.5

Source: Federal Reserve Board