

## U.S. Industrial Production and Capacity Utilization — April More Clutch Trouble

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**Bottom Line:** Not a great start to the current quarter, suggesting real GDP growth downshifted to 1.5% in Q2 from 3.2% in Q1. Factories are struggling as businesses work down an overhang of inventories that partly relates to the slowing in domestic demand at the turn of the year. Since that slowing is partly due to temporary factors, industrial production should improve somewhat in coming months.

**U.S. industrial production plunged 0.5% in April**, led by a similar-sized drop in manufacturing and a 3.5% slide in utilities due to the return of more seasonal temperatures and less heating use. The big concern is that manufacturing is on a clear downward trend this year (though a pop in the Empire index suggests a possible upturn in May), and is flat from a year ago. Virtually every major industry was down in April, including, autos, machinery, electronics, info processing gear, construction supplies and business supplies. Mexican border snarls might explain a fraction of the weakness. The bigger issue is the recent **bulge in business inventories**, partly due to the unexpected softening of domestic demand earlier this year, which is partly related to temporary factors (such as bad weather, government shutdown and the earlier financial market panic). At least the nation is cranking out a record amount of oil, driving the mining sector to new heights.

The **capacity utilization rate slid to a 14-month low of 77.9%**...indicating greater *downward* pressure on producer prices. The Fed will take note if core inflation stays low in coming months.



### Industrial Production and Capacity Utilization

	United States (month/month % change)			(% change : a.r.)		
	Apr	Mar	Feb	3-mo.	12-mo.	
Total	-0.5	0.2	-0.5	-3.2	0.9	
Manufacturing	-0.5	0.0	-0.5	-3.9	0.0	
High-Tech <sup>1</sup>	0.6	-0.1	0.6	4.4	3.2	
Mfg. ex High-Tech	-0.5	0.0	-0.5	-4.2	-0.3	
Durables	-0.9	0.0	-0.4	-4.9	0.4	
Motor Vehicles & Parts	-2.6	-0.2	1.6	-4.7	-4.4	
Computers & Office Equip.	1.3	0.5	0.0	7.0	-0.3	
Non-Durables	-0.1	0.0	-0.7	-2.8	-0.4	
Business Equipment	-2.1	0.7	-1.1	-9.7	0.1	
Mining	1.6	-0.4	-1.0	0.8	10.4	
Utilities	-3.5	2.2	0.7	-2.8	-4.7	
Capacity Utilization	(%)	77.9	78.5	78.5	79.0 <sup>2</sup>	78.8 <sup>3</sup>
Manufacturing	(%)	76.2	76.6	76.7	77.2 <sup>2</sup>	77.0 <sup>3</sup>

<sup>1</sup> computers, comm. equipment & semiconductors    <sup>2</sup> (3 mo. ago)    <sup>3</sup> (12 mo. ago)

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