

Economics Group

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Cars Might Drive Themselves But Not Driving Production

Industrial production increased 0.2 percent in July as gains in utility and mining production offset a decline in manufacturing production. Ex-autos, manufacturing production was up 0.2 percent.

Manufacturing Output Slips in July, But Still Up for the Year

Industrial production increased 0.2 percent in July, which was a shade weaker than expectations. In an unusual development, the report hit the wire about 17 minutes before the scheduled release time.

The bad news in the report is that manufacturing output, which comprises more than three quarters of overall output, slipped 0.1 percent on the month. Emblematic of the slow-growth expansion in the factory sector, manufacturing production has been up one month and down the next since February.

If we look past the saw-tooth pattern in the sometimes volatile monthly figures, we see that manufacturing production is up 0.8 percent on a year-to-date basis. This is consistent with our forecast for continued modest, but steady growth in the sector more broadly.

After a rough period during most of 2016, equipment spending has picked up in each of the past three quarters and that also augurs well for a continuation of modest gains for manufacturing output.

Is a Slowdown in Auto-Production to Blame?

There is evidence to support the argument that manufacturing output is being held back by a slump in the output of motor vehicles. Motor vehicle and parts production fell 3.6 percent in July.

There is some possibility that July figures for autos are being held back by a quirk with seasonal adjustment factors and the absence of summer shutdowns, which were more common in a not-so-distant past. But the fact that this represents the fourth time in five months that we have seen a decline in motor vehicles and parts production tells us that there is more to the story than seasonal factors.

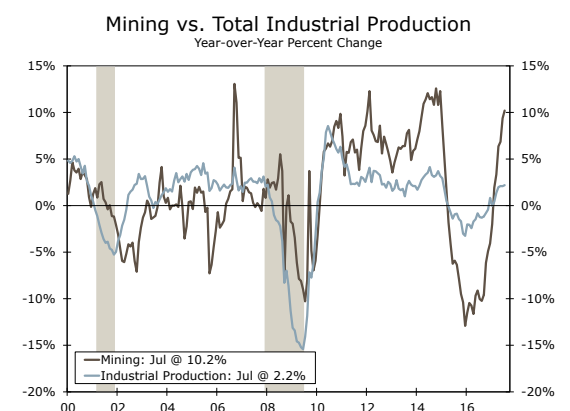
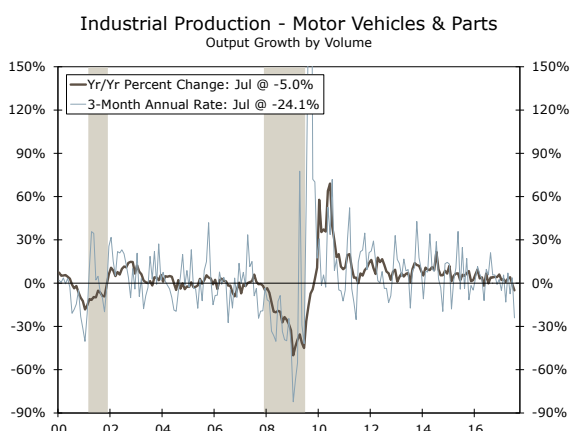
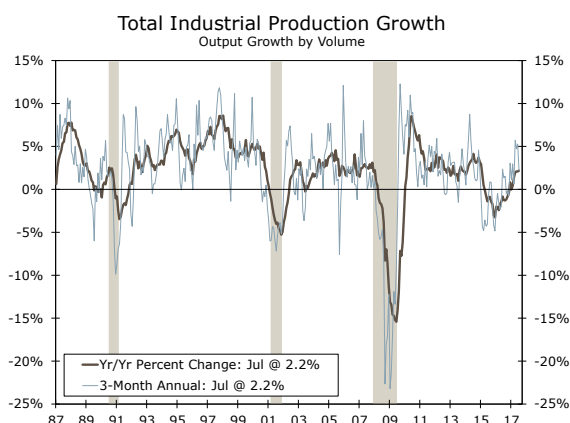
Although retail sales figures report four months of steady gains in sales on dealer lots, those same dealers have been less willing to carry too much inventory. The annualized pace of autos sales from manufactures to dealers has slowed from 17.3 million at the start of the year to just 16.7 million through July.

Seek Not Your Fortune in a Dark Dreary Mine

Production increased at both the nation's mines and utilities. Each category comprises about an 11 percent share of overall production. The gain in utilities output was 1.6 percent, while mining added 0.5 percent.

Mining has been grinding higher since a broad decline in energy prices resulted in steep production cuts during most of 2015 and 2016.

Since the cycle low in September 2016, mining output is up more than 10 percent, though it still is about 9 percent below the all-time high reached in December 2014.



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