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Economics Group

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A Solid Industrial Production Report for July

The 0.7 percent gain in industrial production may have come after a downward revision to last month's increase, but it still marks the largest monthly gain since 2014 and increased in all major industry groups.

Utilities, Mining and Manufacturing All Posted Gains

Industrial production increased 0.7 percent in July—the largest monthly gain since 2014. By industry group, all major categories were positive with utilities leading the way, increasing 2.1 percent and thus matching the gain for the prior month. Both June and July were exceptionally warm which tends to increase demand for utilities output.

The mining sector saw some more relief in July as well. Mining output fell 16.9 percent between December 2014 and the recent low in April 2016, mostly in reaction to the trend decline in oil and natural gas prices. But mining output is up in two of the past three months, which at minimum highlights the benefit of low base effects and may even suggest a bottoming as commodity prices stabilize somewhat. Interestingly, the share of output for mining and utilities is now a perfect tie, with each sector making up 10.76 percent of total industrial production.

Manufacturing Output and the Auto Sector

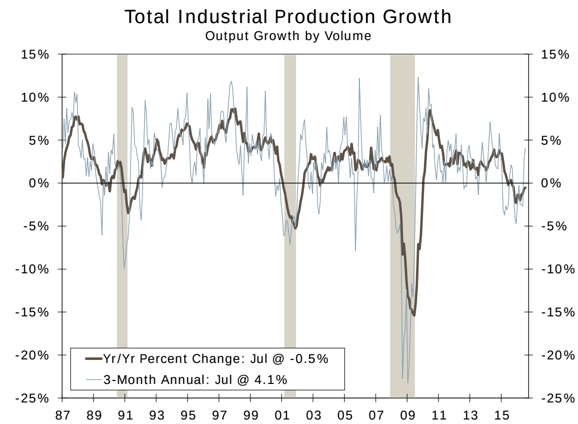
Manufacturing output, the heavyweight at more than 78 percent of all output, was up 0.5 percent. It was the largest increase since July 2015. Both durable and nondurable goods industries increased production in July. In fact, the gains were rather broadly based in the month with gains in fabricated metals, machinery, computers, textile chemicals and plastics.

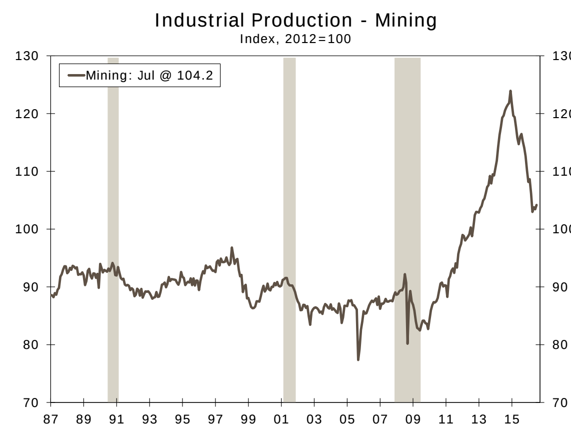
The standout industry was motor vehicle and parts where output jumped 1.9 percent in the month. We suggest taking that increase with a grain of salt. Summer shutdowns are becoming a thing of the past, but their effect still echoes in the seasonal adjustment process. Years ago, automakers traditionally furloughed workers to retool factories and get assembly lines ready for the new model year during the hot summer months. That has been less the case in recent years as technological improvements and a less synchronous model-year turnover have shortened or eliminated summer shutdowns.

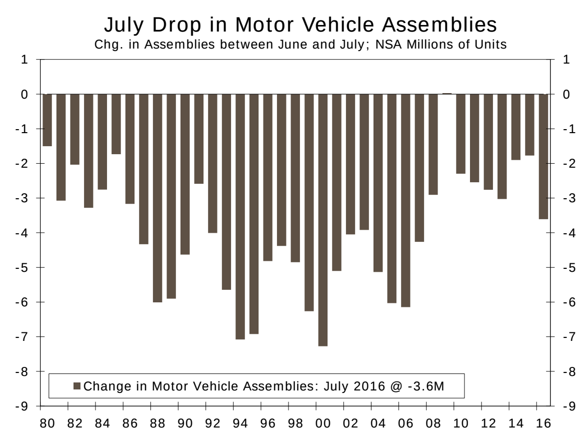
The bottom chart offers a look at just the monthly change for July over the years on a non-seasonally adjusted basis. Motor vehicle assemblies declined in July 2016 by the largest amount since 2007.

The fact that this was the largest decline in nine years suggests automakers may have cut production in July, but not entirely because of re-tooling, but perhaps because auto sales have stabilized and carmakers do not want to get stuck with excess inventory.

Looking forward to the rest of the year, the big gains in utilities are not likely to continue if weather patterns stabilize and mining output will be tied somewhat to the volatility of commodity prices. The broadly based gains in manufacturing, particularly ex-autos, are encouraging.







Source: Federal Reserve Board and Wells Fargo Securities

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