



# Economics Group

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## Slow and Steady Improvement in Industrial Production

*Our forecast for slow improvement in the manufacturing sector has not been flashy and neither are today's numbers for June industrial production, which increased 0.4 percent.*

### Mining Recovery Continues, Weather Goes from Wild to Mild

The overall gain of 0.4 percent was largely a function of a 1.6 percent jump in output at the nation's mines, reflecting the ongoing recovery in mining activity. With the contribution from mining offering some help to the tepid growth in the industrial sector rather than hindering it (top graph), the broadest measure of output is now growing at its fastest three-month annualized pace in about three years (middle graph). Mining is only about 11 percent of industrial production, and we do not intend to overstate its importance, but when manufacturing growth is so slow the marginal contribution from smaller categories bears watching.

June was an exception in that its weather was not. The national weather service's monthly climate summary has been loaded with superlatives this year (hottest, coldest, wettest, driest). But June weather was broadly unremarkable, so it is little surprise that utilities output was flat for the month.

### Will the Ups Start to Outnumber the Downs in Manufacturing?

Manufacturing output, which accounts for more than three quarters of industrial production, was up 0.2 percent in June. This category has been up one month and down the next without exception since February.

Still, after having been roughly flat in 2015 and 2016, even this stuttering pace of growth represents a trend improvement and factors into our forecast for modest growth in equipment spending this year. The production component of the ISM survey for June rose back above 60 for the first time in four months to 62.4. The improvement here may be a harbinger that we could actually see back-to-back gains for manufacturing output in July.

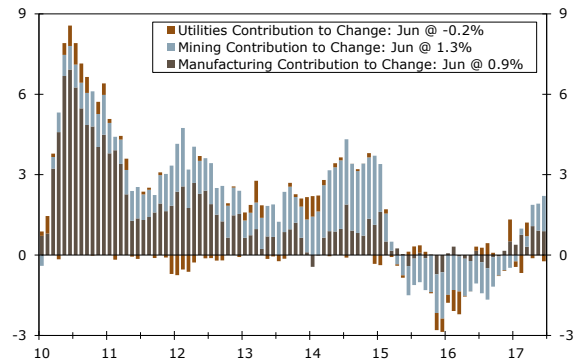
Admittedly, the actual hard data for manufacturing are still running behind the rosier assessments of activity coming from the survey data.

### Capacity Utilization and Inflation Considerations

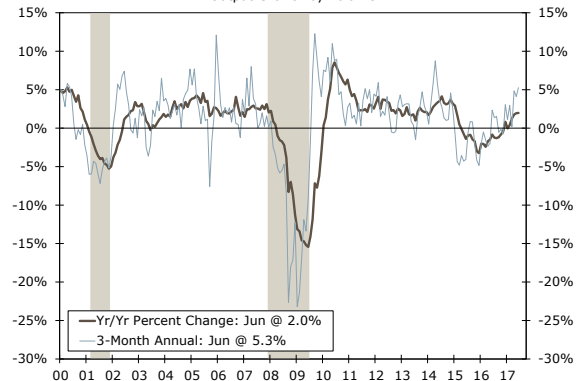
Fed speakers have recently been holding a position that the dip in inflation is likely transitory. Chair Yellen raised a bit of a red flag on inflation, both in prepared remarks and also during testimony before Congress on Wednesday and Thursday of this week, as she highlighted the fact that monetary policy is not on a preset course; "We're watching this very closely and stand ready to adjust our policy if it appears the inflation undershoot appears consistent."

In separate reports yesterday and today, both PPI and CPI inflation came in a bit softer than expected. Today's industrial production report revealed that capacity utilization edged slightly higher to 76.6 percent. That is below the 20 year average of 77.7 percent and suggests little inflationary pressure from the industrial sector.

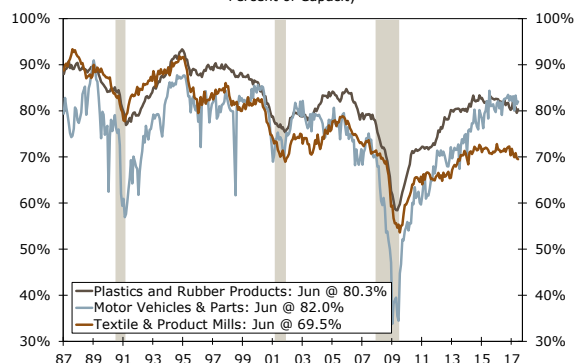
Industrial Production by Industry Group  
 Percentage Point Contribution to Year-over-Year Change



Total Industrial Production Growth  
 Output Growth by Volume



Capacity Utilization  
 Percent of Capacity



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