



Economics Group

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Industrial Production Rebounds in June

The industrial production index rose 0.6 percent in June, reaching a new high of 107.7. Much of the improvement was owed to a 0.8 percent rebound in manufacturing output.

Industrial Production Bounces Back in June

Industrial production regained its footing and was slightly stronger than expected, increasing 0.6 percent in June. Output from the manufacturing and mining sectors both increased over the month, growing 0.8 percent and 1.2 percent, respectively. Utilities output, however, was a drag on the overall index and dropped 1.5 percent.

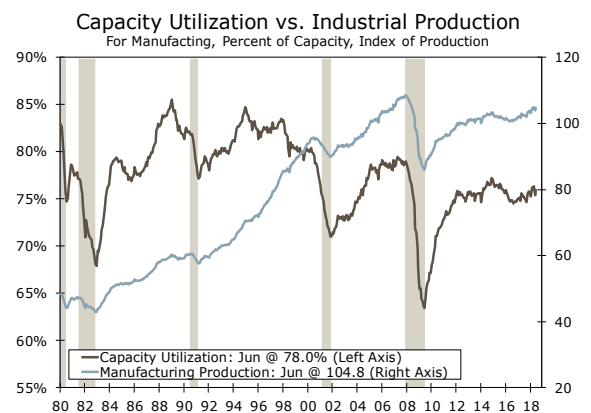
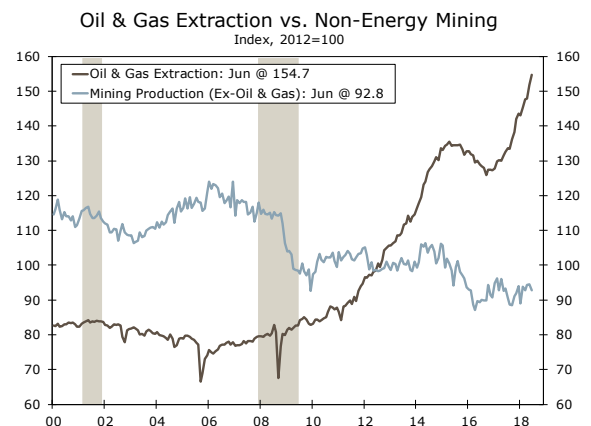
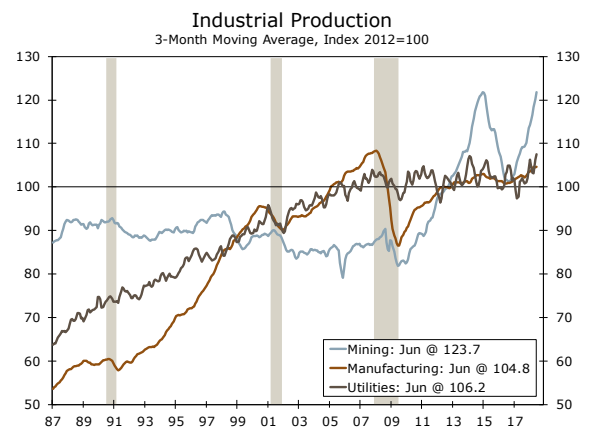
June's gain in overall industrial production was in part due to a 0.8 percent rebound in manufacturing output. The improvement out of the manufacturing sector was driven by a 7.8 percent bounce-back in motor vehicles and parts production. Last month's decline in the factory sector was largely due to an 8.6 percent drop in motor vehicle and parts manufacturing arising from disruptions in the auto sector caused by a major fire at a parts supplier. Excluding motor vehicles and parts, factory output rose 0.3 percent in June. Consumer goods production also expanded 0.7 percent, while business equipment rose a solid 2.1 percent for the month.

There was little evidence that recently-imposed tariffs boosted production of steel or aluminum in June. Primary metal manufacturing was essentially flat, with output for iron and steel products and alumina and aluminum production and processing falling 0.8 percent and 2.9 percent, respectively. Mining output increased in June, rising 1.2 percent and to a new all-time high of 123.7. The sector has now seen monthly gains for five consecutive months as elevated energy and commodity prices are keeping oil and gas drilling activity running at full steam.

Utilities output, which makes up 11 percent of total industrial production, fell 1.5 percent in June. The drop was somewhat surprising, as it was the third-warmest June on record. Electric production declined 2.4 percent, while natural gas increased 4.8 percent.

Total industry capacity utilization increased to 78.0 percent in June. Utilization has risen 11.3 percentage points since the low of 66.7 in 2009; however, it remains slightly below the long-run average of 79.8 percent. Capacity in the mining sector tightened further to 92.7 percent amid the energy-driven uptick in production. Capacity utilization in the manufacturing sector also ticked up to 75.5 percent; however, it remains below its long-term average, with little risk of capacity constraints leading to inflation pressures.

June's industrial production figures worked to bridge the divide between the upbeat survey data and the comparatively modest production measures. Overall, output increased 3.8 percent year-over-year in June and has increased 6.0 percent annualized in the second quarter. Given the strength of the ISM index, which sits at 60.2 as of June, we expect industrial output to advance to a level consistent with the positive sentiment expressed through the various manufacturing surveys.



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