

## Economics Group

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# Manufacturing Production Remained Solid in July

**Industrial production rose 0.1 percent, with a more substantial 0.3 percent rise in manufacturing output. Factory production shows no signs of slowing, while price pressures show no signs of easing.**

### Manufacturing Production Looks Solid

Industrial production expanded a scant 0.1 percent in July, which missed the mark of the 0.3 percent increase expected by markets. An upward revision to June, however, when activity is now reported to have risen 1.0 percent versus the 0.6 percent gain initially reported, more than makes up for the shortfall. The trend in industrial production remains solidly upward, with growth over the past year notching the biggest one-year gain since early 2011. July's miss can be traced in part to a 0.5 percent decline in utilities output. Although temperatures last month were above average for this time of year, they followed the third-warmest June on record, making further gains in electricity output a tall order.

More meaningful in terms of economic activity was the 0.3 percent decline in mining output. That was the first monthly drop in more than year. While oil and gas extraction continued to expand, support activities for drilling oil and gas wells, which leads actual extraction, pulled back more than 4 percent last month. Mining activity ex-oil and gas also fell over the month, but output in the overall mining sector remains up solidly over the past year.

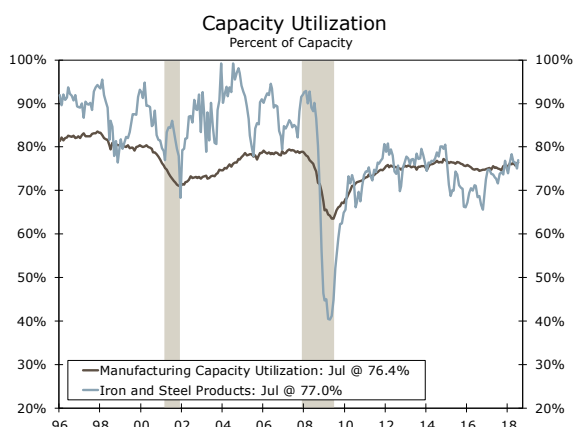
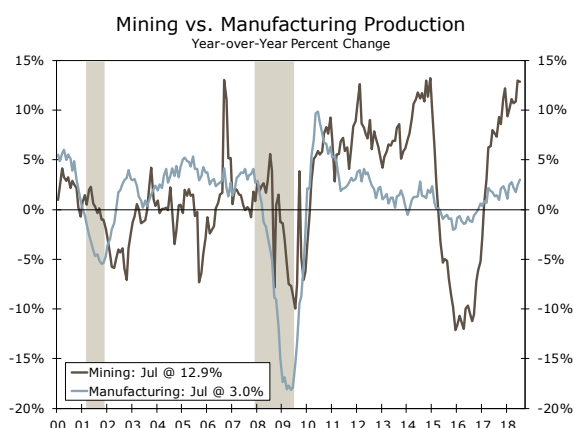
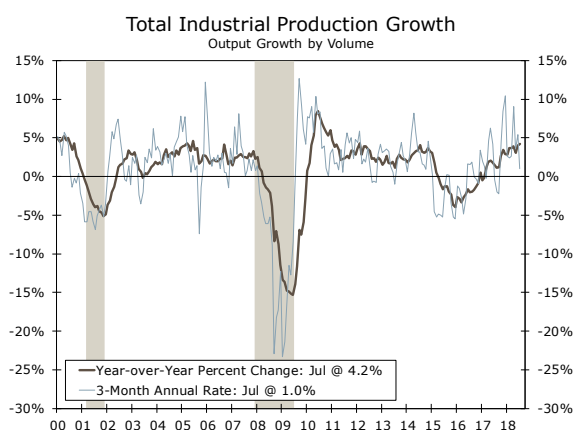
The juggernaut of industrial production, the manufacturing sector, however, shows no sign of slowing down. Factory output rose 0.3 percent in July. Autos, machinery and computer & electronics all posted solid gains and continue to outpace the manufacturing sector as a whole.

### Steel and Aluminum Production Plowing Ahead

There are a few signs that new tariffs on steel and aluminum instated earlier this year are affecting domestic production. Iron and steel production is up 7.6 percent over the past year, versus a 3.0 percent increase for the manufacturing sector as a whole; aluminum production and processing is up 5.0 percent. Capacity utilization for iron and steel products on average this year has been 2.2 percentage points above 2017's average. By comparison, capacity utilization among all manufacturers is up 0.8 percentage points on the same basis. Less obvious, however, is the extent to which higher input prices for users of steel and aluminum could be weighing on overall growth in the manufacturing sector.

### Price Pressures Brewing

Utilization in the steel and broader manufacturing sector is fast approaching the previous highs of this cycle hit before the swoon in commodity prices and slowdown in global growth led to a significant retrenchment in industrial activity in 2015 and 2016. Capacity utilization therefore offers another sign of price pressures building in the industrial space. While tighter capacity has helped to underpin new investment, price pressures for the sector still look elevated, with the ISM Prices Index above 70 since the start of the year, backlogs picking up and inventory growth slowing.



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