

## Economics Group

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# August Industrial Production: Energy in the Driver's Seat

**Industrial production rose 0.4% in August and is up 4.9% over the past year—the strongest 12-month change since 2010. The energy sector is propelling production again, but we see some risks for manufacturing ahead.**

### Mining Production Reaches New Highs

Industrial activity in the United States remained solid in August, with production rising 0.4%. That was a tick better than what markets were expecting, but a three-tenths upward revision to July also lends evidence that industrial sector activity has been strong in recent months. Over the past three months, production has risen at a 5.7% clip. That's slightly ahead of the 4.9% gain over the past year, which is the strongest 12-month change since 2010.

The standout of both the August report and the upward revisions to July was the mining sector. Mining, which accounts for 14% of industrial production, rose 0.7%. That matches the gain for July, which had originally reported a contraction of 0.3%. Over the past year, mining production has increased 14.1%. That surpasses the rate registered in the energy boom earlier this cycle before oil prices began to collapse, and total production for the sector is once again at a record high.

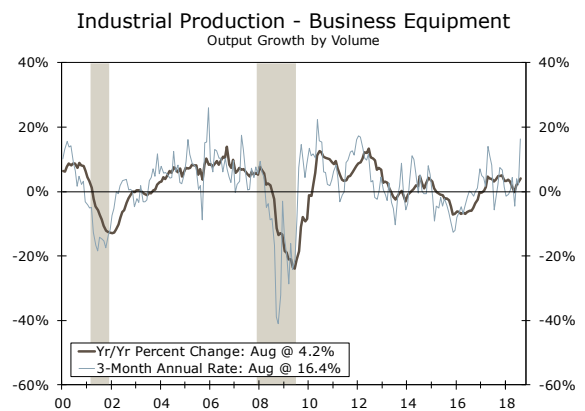
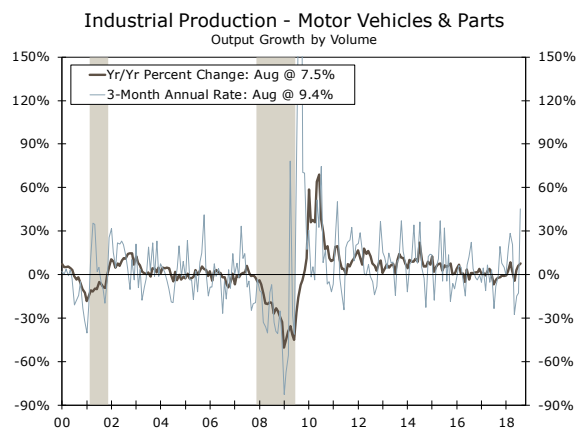
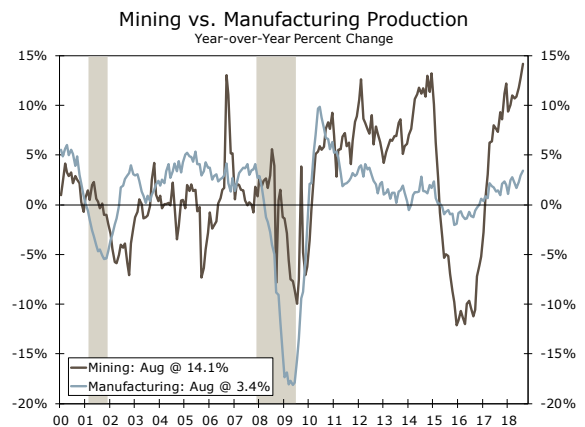
Higher utilities production also helped drive the beat for August. Record heat in the Northeast sent utilities output up 1.2% and snapped a three month run in which utilities weighed on the headline.

### Business Spending in Good Shape for Q3

Manufacturing production, on the other hand, came in a bit light. Total output at the nation's factories rose 0.2%. Widespread declines in nondurables (down 0.5%) held down the gain.

There were a few pockets of strength in manufacturing last month, but we are cautious to read too much into these gains. Motor vehicle and parts production jumped 4.0%. That pace seems difficult to sustain in our view in light of the slowing sales environment and rising input prices for the sector. Primary metals was another source of strength (up 3.0%). Even with the solid gain in August, however, production is up 4.4% over the past 12 months compared to 6.2% in October, which was ahead of the steel and aluminum tariffs aimed to increase production in this industry.

The strength in motor vehicles production in August looks tied at least in part to business spending. Output of business equipment rose 1.2% in August, with the biggest gain coming from transportation equipment. Production for this market has increased at a whopping 16.4% clip over the past three months. That bodes well for our call that business investment will increase at a solid rate again this quarter. We look for real equipment spending to grow at roughly a 7% pace in the third quarter. However, headwinds for the sector are reemerging. The rebound in the dollar this year, higher interest rates and ongoing trade tensions are likely to weigh on activity in the coming months. Therefore, we see equipment investment moderating to around a 5% clip over the next few quarters.



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