U.S.: SOFT JUNE INDUSTRIAL PRODUCTION PROLONGS INDUSTRIAL SLUMP

*U.S. industrial production (IP) was unchanged in June (consensus: 0.1%), lowering its yr/yr change to 1.2% from 2.0%. IP declined by 1.2% q/q annualized in Q2, its second consecutive quarterly decline, placing it 0.9% below its December peak (Chart 1). This extended industrial soft patch is due to slower global growth and trade, tariffs, the inventory overhang in the durable goods sector, and idiosyncratic troubles plaguing the aircraft sector (Boeing).

*In June, a large decline (weather-related) in utilities production (-3.6% m/m) offset increases in motor vehicle (+2.9% m/m), manufacturing ex motor vehicle (+0.2% m/m) and mining (+0.2% m/m) production.

*Other data on the industrial sector have remained soft, with no signs yet of a turnaround: U.S. regional and national manufacturing sentiment indexes reflect sluggish momentum, manufacturing PMIs in other advanced nations have entered contraction territory, U.S. manufacturing employment has increased by only 45k year-to-date, compared to 142k during the same period in 2018.

*Solid gains in consumption and firm fundamentals underlying housing are offsetting the industrial slump, which will continue until the inventory bulge unwinds and some kind of U.S.-China partial agreement eases tensions on tariffs.

The details of IP remained weak in June, with production in only 11 of the 23 sectors rising (yr/yr), the third consecutive month in which production in less than half of the sectors increased (Chart 2).

By primary industry group:

1) Manufacturing production ex motor vehicles that reliably gauges underlying manufacturing demand has declined by 1.5% q/q annualized over the last three months and is unchanged from a year ago (Chart 3).

2) Utilities production declined by 6.7% q/q annualized in Q2 and will weigh on consumption of services in Q2 GDP.

3) Mining production increased by 8.9% q/q annualized in Q2 after rising by 2.0% q/q in Q1, because of a 13.4% q/q annualized increase in oil and gas extraction. Oil and gas wells drilling declined by a sizable 15.1% q/q annualized and will weigh on business structures investment in Q2 GDP.

Note that production of aircraft and parts declined by 9.1% q/q annualized in Q2 because of the cutback in production at Boeing (Chart 4).

Business equipment production tumbled by 3.8% q/q annualized in Q2, reflecting faltering real business fixed investment which we expect to decline in Q2. Production of durable consumer goods increased in Q2, but production of nondurable consumer goods posted its largest decline since Q1 2012.

The inventory-sales ratio in wholesale and manufacturing durable sectors has jumped due to sluggish sales (Chart 5). Businesses will have to continue to cut back on production to make inventory levels more desirable unless demand improves considerably, and that will weigh on IP in coming months.

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Chart 1: Total Industrial Production

Source: Federal Reserve Board/Haver Analytics

Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 2: Number of Major IP Categories Increasing (Out of 23)

Source: Monthly data. Source: Federal Reserve Board and Berenberg Capital Markets
Chart 3: Manufacturing Production Excluding Motor Vehicles and Parts (three-month annualized % change)

Source: Federal Reserve Board/Haver Analytics

Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 4: Production of Aircraft and Parts (q-o-q annualized % change and y-o-y % change)

Source: Federal Reserve Board/Haver Analytics

Source: Quarterly data. Source: Federal Reserve Board and Haver Analytics
Chart & Inventory Sales Ratios for the Wholesale and Manufacturing Durable Goods Sectors

Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics
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