

US Industrial Data Shows Further Weakness

**US industrial production declined by 0.4% m/m (-1.1% yr/yr) as the gains in June and July proved fleeting*

**Manufacturing production excluding motor vehicles – a gauge for the underlying trend in demand - declined by 0.5%*

**Early readings on manufacturing sentiment for September suggest that sluggish activity continued through the end of the quarter*

US industrial production declined by 0.4% m/m (-1.1% yr/yr) as the gains in June and July proved fleeting (Chart 1). Production was weak across all major categories with only mining production increasing (a sign that activity in the oil and gas sector may be starting to stabilize).

Manufacturing production excluding motor vehicles – a gauge for the underlying trend in demand - declined by 0.5% in August, the largest fall since January 2014 and is consistent with the more pessimistic readings on sentiment (Chart 2). With production remaining weak, there is unlikely to be a sizable restocking of goods this quarter, especially as sales data has also been subpar.

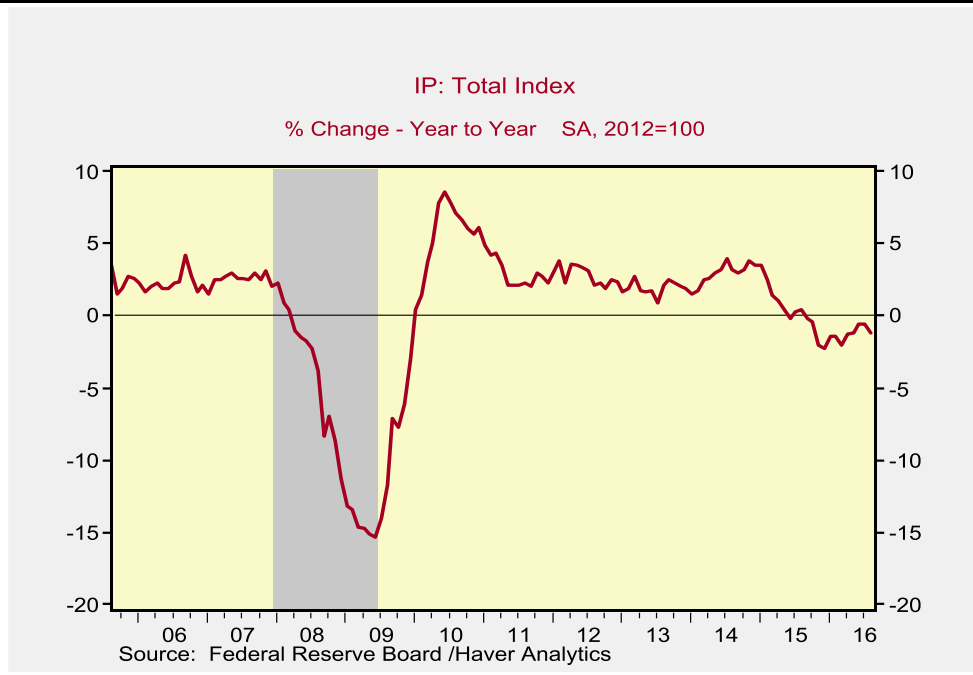
Expectations for a rebound in business investment this quarter are also tempered by pessimistic manufacturing sentiment. Early readings on manufacturing sentiment for September – Empire State (-1.99) and Philadelphia Fed manufacturing (12.8) – suggest that sluggish activity continued through the end of the quarter. The headline Philadelphia Fed number masks the weakness in the underlying details with the ISM-adjusted index, which takes the subcomponent details into account, falling further into contraction at 43.7 (Chart 3).

The manufacturing sector has been faced with a plethora of well-documented headwinds for the last two years, the effects of which they are clearly still struggling through. Moreover, uncertainty surrounding the outcome of the upcoming presidential elections could be weighing on sentiment and hindering investment decisions.

Business investment has already declined for three consecutive quarters and appears on track to decline again this quarter – quite unusual for an economic recovery. Moreover, based on sluggish production data, there are downside risks for inventory investment this quarter. Taken together with the underperformance of private consumption so far this quarter, it is unclear where a boost to Q3 GDP growth will come from. The US economy appears to be on shakier ground.

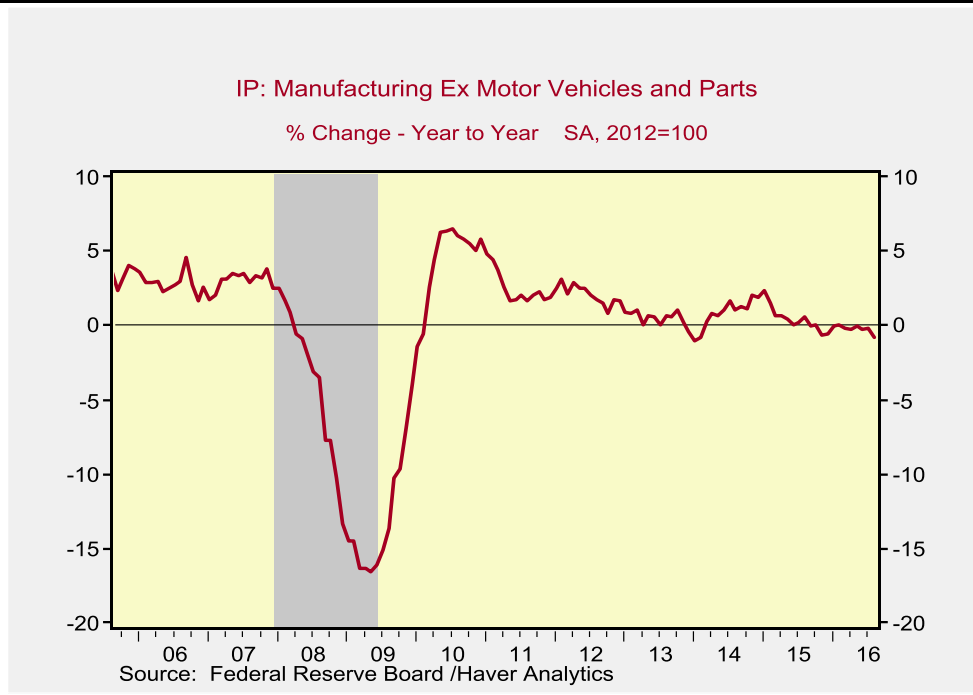
15 September 2016

Chart 1: Total Industrial Production



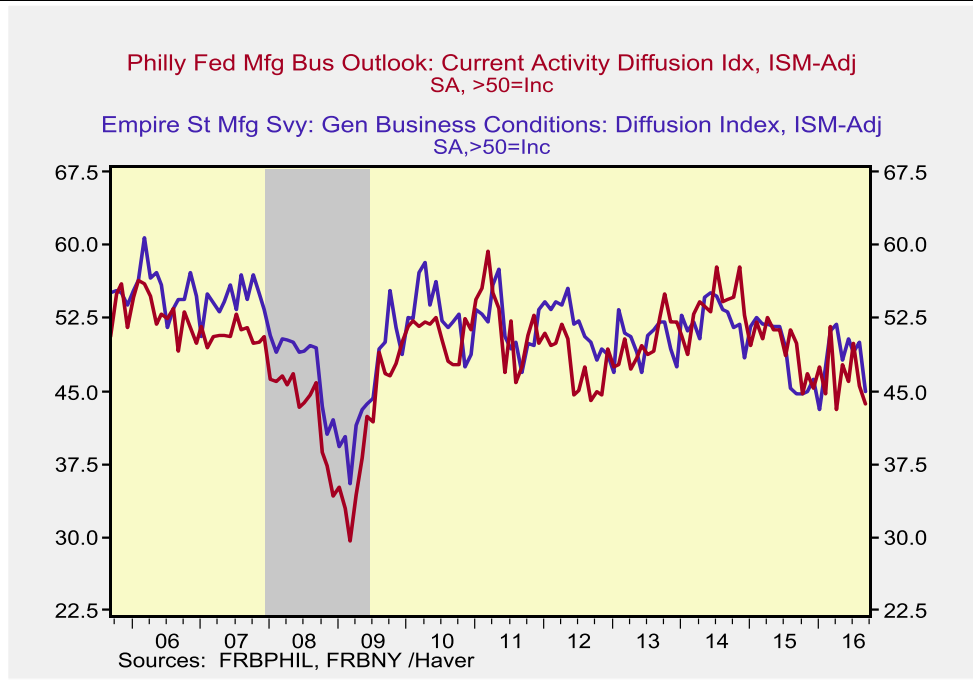
Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 2: Manufacturing Production Excluding Motor Vehicles and Parts



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

Chart 3: Philadelphia Fed and Empire State Manufacturing Business Conditions Indexes (ISM-Adjusted)



Source: Monthly data. Source: Federal Reserve Bank of Philadelphia, Federal Reserve Bank of New York and Haver Analytics

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