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July Industrial Production / Capacity Utilization

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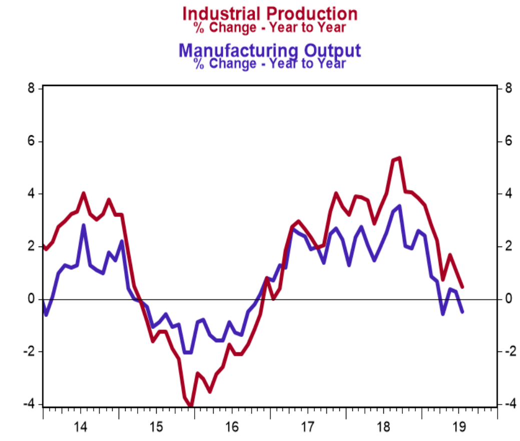
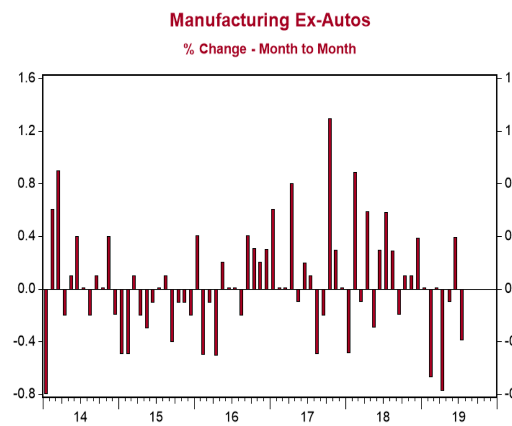
- Industrial production declined 0.2% in July (-0.4% including revisions to prior months), below the consensus expected gain of 0.1%. Mining output fell 1.8% in July, while utilities rose 3.1%.
- Manufacturing, which excludes mining/utilities, fell 0.4% in July (-0.6% including revisions to prior months). Auto production declined 0.2%, while non-auto manufacturing fell 0.4%. Auto production is up 3.7% versus a year ago, while non-auto manufacturing is down 0.9%.
- The production of high-tech equipment rose 0.2% in July and is up 5.3% versus a year ago.
- Overall capacity utilization declined to 77.5% in July from 77.8% in June. Manufacturing capacity utilization fell to 75.4% in July from 75.8% in June.



Source: Federal Reserve Board/Haver Analytics



Source: Federal Reserve Board/Haver Analytics

Implications: No doubt about it, industrial production was weak in July. The one positive contribution for the month came from utilities, the result of temperatures returning to normal and boosting demand for air conditioning following the coolest June since 2009. Aside from that series, declines were broad-based. Auto manufacturing fell 0.2% in July following two months of strong gains. Meanwhile, manufacturing outside the auto sector (which represents the majority of activity) declined 0.4%. Putting the two series together shows overall manufacturing fell 0.4% in July and is now down 0.5% from a year ago. This represents a considerable slowdown in the twelve-month growth rate since the end of 2018, and the same pattern can be seen in overall industrial production as the chart to the right shows. However, it's important to remember that we saw a similar slowdown in 2015-16 during the oil price crash, and no recession materialized. Keep in mind that manufacturing is only responsible for about 11% of GDP and is much more sensitive to global demand than other sectors of the economy. Even though non-auto manufacturing is now down 0.9% in the past year, the various capital goods production indices continue to outperform the broader index. For example, over the past twelve months business equipment is up 1.0%, high-tech equipment is up 5.3%, and durable goods more generally are up 1.1%. By contrast non-durable goods production is down 2.1%, demonstrating that the ongoing weakness in non-auto manufacturing growth isn't being led by the death of business investment Finally, mining activity fell 1.8% in July, its largest monthly drop in over three years. However, according to the Fed this was just the result of a sharp temporary decline in oil extraction due to hurricane Barry. In the past year mining is still up 5.5%, showing the fastest year-over-year growth of any major category. In other recent news from the manufacturing sector, the Philly Fed Index, a measure of East Coast factory sentiment, dropped to +16.8 in August from +21.8 in July. Meanwhile, the Empire State Index, which measures factory sentiment in the New York region, continued its rebound, rising to +4.8 in August from +4.3 in July. Notably, both of these readings beat consensus expectations and signal continued optimism. On the housing front, the NAHB index, which measures homebuilder sentiment, rose to 66 in August from 65 in July, matching its 2019 high. The increase was driven by expectations of stronger sales activity and buyer foot traffic.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Jul-19	Jun-19	May-19	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**-0.2%**	0.2%	0.2%	0.7%	-1.6%	0.5%
Manufacturing	**-0.4%**	0.6%	0.1%	1.5%	-2.1%	-0.5%
Motor Vehicles and Parts	**-0.2%**	2.5%	3.0%	23.7%	7.9%	3.7%
Ex Motor Vehicles and Parts	**-0.4%**	0.4%	-0.1%	-0.4%	-3.0%	-0.9%
Mining	**-1.8%**	0.6%	-0.3%	-5.9%	-1.4%	5.5%
Utilities	**3.1%**	-3.3%	1.8%	6.3%	1.0%	0.3%
Business Equipment	**-0.4%**	0.6%	0.6%	3.2%	-2.9%	1.0%
Consumer Goods	**0.2%**	0.4%	0.8%	5.5%	1.0%	-0.1%
High-Tech Equipment	**0.2%**	0.5%	1.0%	6.9%	8.7%	5.3%
Total Ex. High-Tech Equipment	**-0.2%**	0.2%	0.2%	0.7%	-1.8%	0.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**77.5**	77.8	77.8	77.7	78.0	78.6
Manufacturing	**75.4**	75.8	75.4	75.5	75.7	76.3

Source: Federal Reserve Board