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June Industrial Production / Capacity Utilization

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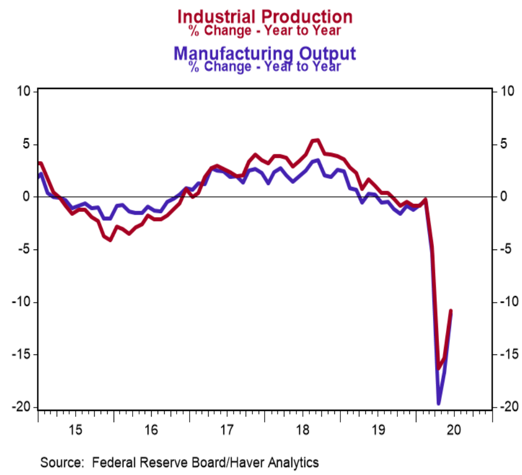
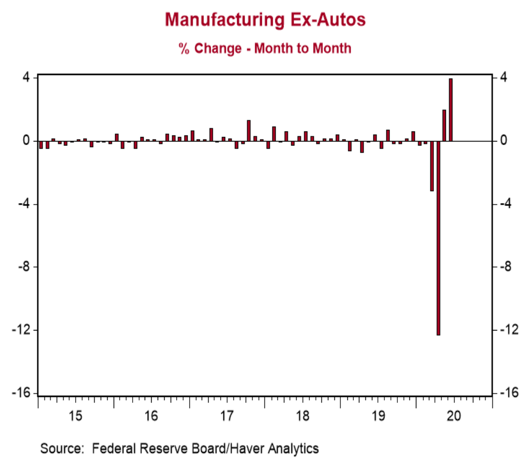
- Industrial production increased 5.4% in June, beating the consensus expected gain of 4.3%. Mining output fell 2.9% in June, while utilities rose 4.2%.
- Manufacturing, which excludes mining/utilities, increased 7.2% in June. Auto production jumped 105.0%, while non-auto manufacturing rose 3.9%. Auto production is down 24.7% versus a year ago, while non-auto manufacturing is down 10.1%.
- The production of high-tech equipment increased 1.8% in June and is up 1.8% versus a year ago.
- Overall capacity utilization increased to 68.6% in June from 65.1% in May. Manufacturing capacity utilization rose to 66.9% in June from 62.3% in April.





Implications: The industrial sector continued its recovery in June, posting the largest monthly gain since 1959. However, that improvement is from a very low baseline. Even with June's impressive headline gain, Q2 as a whole was down at a 42.6% annualized rate versus the Q1 average, the largest quarterly drop since 1946 during the winddown in the industrial sector after WW2. While there is still a ways to go before a full recovery, the details of today's report were healthy. Within manufacturing, auto production surged 105% in June, following a similarly strong gain of 120.1% in May, as car and truck factories continued to resume operations. Expect more large gains in the auto sector in the months ahead, as production in June was still 24.4% below the level reached in February, before the Coronavirus and related shutdowns hit the US. Meanwhile, non-auto manufacturing rose 3.9% in June, its largest monthly gain on record. While some sectors of the economy, like restaurants, bars, and hotels are at risk due to re-closure and shutdowns, the factory sector is less at risk, and should keep recovering. Outside the factory sector, activity remained mixed. Utilities output rose 4.2% in June, as warmer weather drove demand for air conditioning and offices and retail stores around the country continued to reopen. Meanwhile, mining declined 2.9%, as extraction activity for oil, natural gas, and other minerals continued to fall. Despite a recent rebound, WTI crude oil prices are still down roughly 35% since the beginning of January and below the break-even level for many US producers, which is holding down activity. One bright spot is that the number of oil and gas rigs in the US has leveled off after falling roughly 65% since the pandemic began, so it looks like most of the damage is behind us. As economic activity continues to rebound, demand for energy grows, and the surviving firms consolidate, mining eventually will be a tailwind for industrial production. In other manufacturing news this morning, the Empire State Index, which measures factory sentiment in the New York region, rose to +17.2 in July from -0.2 in June. This is the first positive reading from the index since February and signals that the huge declines have passed and manufacturing activity in New York has begun to rebound. Finally, on the inflation front, import prices increased 1.4% in June, as fuel led the way rising 21.9%, while nonfuel imports rose 0.3%. Meanwhile, export prices increased 1.4%, with prices rising for both agricultural and nonagricultural exports. In the past year, import prices are down 3.8%, while export prices are down 4.4%.

Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Jun-20	May-20	Apr-20	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**5.4%**	1.4%	-12.7%	-24.2%	-21.0%	-10.8%
Manufacturing	**7.2%**	3.8%	-15.9%	-23.0%	-21.2%	-11.1%
Motor Vehicles and Parts	**105.0%**	120.1%	-76.3%	31.3%	-36.4%	-24.7%
Ex Motor Vehicles and Parts	**3.9%**	1.9%	-12.3%	-25.5%	-19.9%	-10.1%
Mining	**-2.9%**	-6.1%	-6.8%	-48.0%	-31.2%	-16.9%
Utilities	**4.2%**	-3.6%	1.9%	10.0%	-3.6%	0.6%
Business Equipment	**11.8%**	7.4%	-23.4%	-28.3%	-32.7%	-18.2%
Consumer Goods	**9.0%**	3.4%	-12.7%	-6.3%	-13.2%	-6.8%
High-Tech Equipment	**1.8%**	-0.4%	-2.9%	-6.0%	-6.4%	1.8%
Total Ex. High-Tech Equipment	**5.5%**	1.4%	-12.9%	-24.5%	-21.2%	-11.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**68.6**	65.1	64.2	66.0	70.9	74.1
Manufacturing	**66.9**	62.3	60.0	63.1	68.5	71.8

Source: Federal Reserve Board