ECONOMIC UPDATE
REGIONS
June 16, 2014

May Industrial Production: Manufacturing Sector Powers Output Higher

- Industrial production rose by 0.6 percent in May, with manufacturing output also up by 0.6 percent.
- The overall capacity utilization rate rose to 79.1 percent, while the utilization rate in manufacturing rose to 77.0 percent.
- On a year-over-year basis, total industrial production was up by 4.3 percent in May, with manufacturing output up by 3.6 percent.

Output amongst the nation's factories, mines, and utilities rebounded smartly in May, with total industrial production rising by 0.6 percent, while April's decline is less harsh than had initially been estimated with total output now shown to have fallen by 0.3 percent rather than 0.6 percent. May's increase was led by gains in the manufacturing and mining sectors while utilities output fell. The overall capacity utilization rate rose to 79.1 percent, with utilization in the manufacturing sector rising to 77.0 percent.

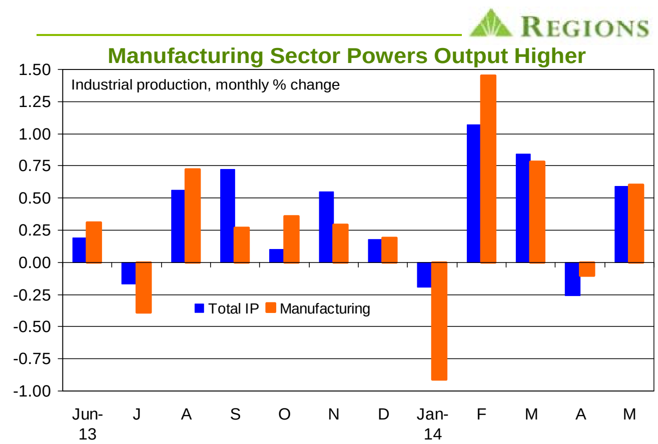
The increase in output in the manufacturing sector was broad based across industry groups. Motor vehicle production increased by 1.5 percent in May after having slipped 0.1 percent in April, and May's increase leaves motor vehicle production up 7.7 percent on an over-the-year basis. The capacity utilization rate amongst motor vehicle producers rose to 81.8 percent in May and has now topped the 80 percent mark in four consecutive months for the first time since 2004. What should remain solid motor vehicle sales will ensure production schedules amongst vehicle manufacturers remain active and in the near term utilization rates will climb higher.

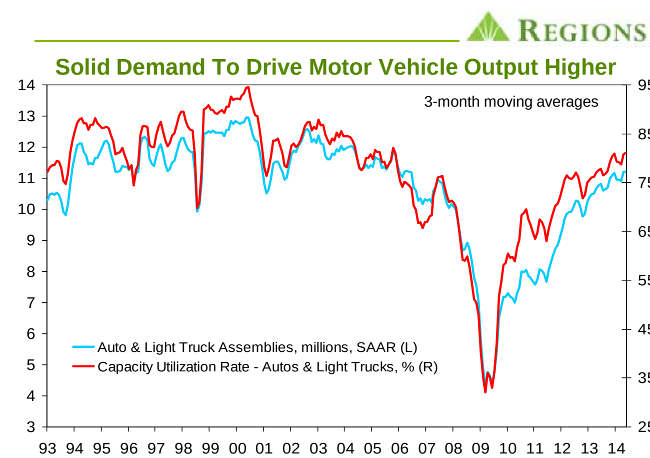
Excluding motor vehicles, manufacturing output rose 0.5 percent in May. The split between durable goods industries and nondurable goods industries that has been apparent in the employment data for some time is also seen in the IP data. With the exception of primary metals, where output fell 0.1 percent in May following April's 0.8 percent advance, output was higher amongst durable goods industries, including a 1.1 percent increase in machinery output. Over the past year machinery output has risen 7.6 percent. On the whole, the gains in durable goods production are consistent with the underlying trends seen in orders for core capital goods. We look at orders on a three-month moving average basis to smooth out the monthly volatility, and on this basis orders for core capital goods orders have surpassed their pre-recession peak.

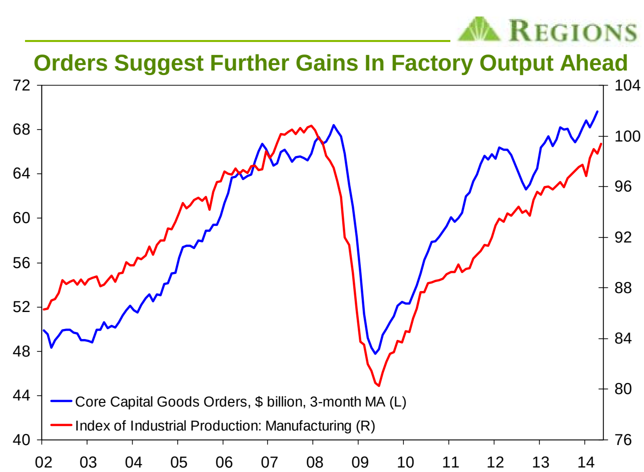
Still, there are those segments of manufacturing – mainly producers of nondurable goods – in which the outlook is not as promising. While output amongst producers of nondurable goods rose 0.4 percent in May, this growth was concentrated amongst the petroleum & coal, chemicals, and plastics & rubber segments, with output falling in most other nondurable goods segments.

Mining output rose 1.3 percent in May, marking the third consecutive month in which output rose by better than 1.0 percent; on a year-over-year basis, mining output is up 9.7 percent. Reflecting the solid gains in production, the capacity utilization rate in the mining sector rose to 91.0 percent in May, the second consecutive month with utilization at or above 90 percent. Total utilities output fell 0.8 percent in May with declines in both electricity and gas output. Of course, utilities output is still settling back from the spikes seen during the winter months and the onset of more seasonal summer temperatures will push utilities output higher in the months ahead.

As with the other high frequency data the monthly industrial production data can be volatile but the underlying trend is positive, with the pace of output growth in the manufacturing sector having steadily increased. This is consistent with the data from the ISM's Manufacturing Index and the data on core capital goods orders. Our baseline U.S. macro forecast incorporates a faster pace of business fixed investment in machinery and equipment and there is nothing in the data that would lead us to question that call, particularly with utilization rates rising across a range of industry groups. This will be one factor underpinning what should be a better pace of real GDP growth over the final three quarters of 2014 and into 2015.







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