

Economic Analysis

Auto Output Pulls Back Industrial Production

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- **Total industrial production declined 0.4% MoM in August following a 0.9% rise in July**
- **Manufacturing declined 0.5% MoM due to plunging motor vehicle production**
- **Mining dropped 0.6% MoM amidst ongoing weakness in the energy sector**

Industrial production slipped once again in August, declining 0.4% MoM, after rising for the first time this year in July. August's reading was below expectations and is a sour mark for the third quarter. On a brighter note, gains in July were revised upward to 0.9% MoM. Year-over-year growth for industrial production was soft, rising only 0.9%. This weakness is reflected in August's capacity utilization reading, which declined to 77.6% after rising to 78% in June.

The manufacturing sector, in particular, is struggling as a result of weak global demand and the strong dollar which appear to be choking output. The most disappointing figure in August was motor vehicle and parts production, which plunged 6.4% MoM—its largest MoM decline since April 2011—after rising to a 6-year high in July. However, on a YoY level, auto production is up 6.7%, indicating that August's large MoM decline is temporary and due to seasonal factors. August was also a disappointing month for the besieged mining sector, as mining output dropped 0.6% MoM following its largest MoM increase of the year in July. However, oil and gas well drilling was up for the second month in a row with a 1.5% MoM increase. Utility output was up 3.3% YoY, leaving the YoY growth of the other components looking rather soft, with a 1.4% YoY increase and 3.2% YoY drop for manufacturing and mining, respectively.

This decline in industrial production serves as a reminder of weak demand for U.S. goods abroad and a distressed energy sector at home. The slack in factory output could provide ammunition for those who support holding off an interest rate hike. However, the economy's recovering health is evident in other areas, such as employment, housing and retail sales. Given these steady indicators, we continue to expect a pick-up through the rest of the year and do not intend to revise down our GDP forecast based solely on this negative report.

Chart 1
Selected Industrial Production Components
YoY %Change



Source: BBVA Research & FRB

Chart 2
Motor Vehicle and Parts Production
YoY %Change



Source: BBVA Research & FRB

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