

U.S. Flash

Industrial Production Stalls as Manufacturing Remains Soft

- Total output was unchanged in May following a 0.4% decline in April
- Manufacturing rose slightly on growth in consumer-related durable goods
- Utilities output continues to decline, putting downward pressure on the headline figure

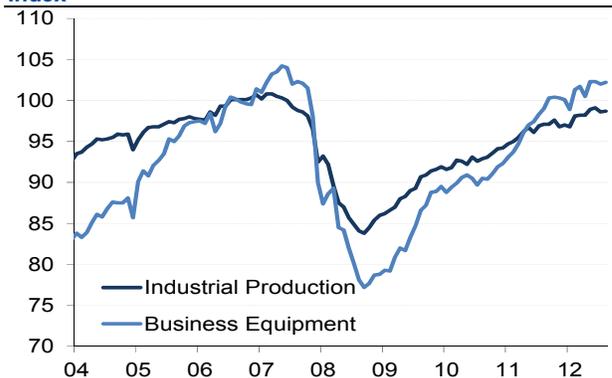
Industrial production remained flat in May despite the 0.1 point rise in the headline index as the industry remains weak and demand falters. Much of the weakness stemmed from a second straight decline in utilities output, which dropped 1.8% in May following a 3.2% decline in April. Offsetting this decline were mining and manufacturing. Mining continued its upward momentum, rising 0.7% in May as some commodities remain in high demand. Manufacturing reversed a two-month downward trend but only slightly, up just 0.1% for the month as the sector's activity remains weak. Given the latest manufacturing indicators, we do not expect the sector to be a major driver of industrial production throughout the next few months, but it is likely that utilities output will increase again as we move into the hot summer months.

Its weakest pace since January, the final products component of the series declined slightly despite the better result from business equipment. Of the two subcomponents, the business equipment sector rose 0.2% which, looking back historically is a relatively paltry showing from a usually strong sector. The remaining component, consumer goods, declined but only by 0.1% which continues to purport a stalling sector overall. Nonindustrial supplies declined by 0.3% as construction supplies did not keep up with the recovering housing market as the slower pace of housing starts may have impacted to sale and demand of the required products. Turning attention to the consumer goods portion of the report, the figures are somewhat mixed. Durable goods production rose 0.2% as the automotive sector continued to bolster production, up 0.4%, coupled with the 0.8% increase in computer & video/audio equipment. Nondurable goods continued to decline for the second straight month as neither energy nor nonenergy goods could find the demand to pull out from multi-month declines.

Overall the slight increase in May's industrial production headline figure is relatively mute as the sector itself remains very soft with the ISM and Federal Reserve surveys pointing toward a stalling or declining trend for the second quarter. Nevertheless, we remain optimistic as we near the close of the first half of 2013 that production will begin to pick up momentum in 2H13.

Chart 1

Industrial Production Index



Source: Federal Reserve Board

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