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UNITED STATES

Rebound by industrial production: a mirage?

HIGHLIGHTS

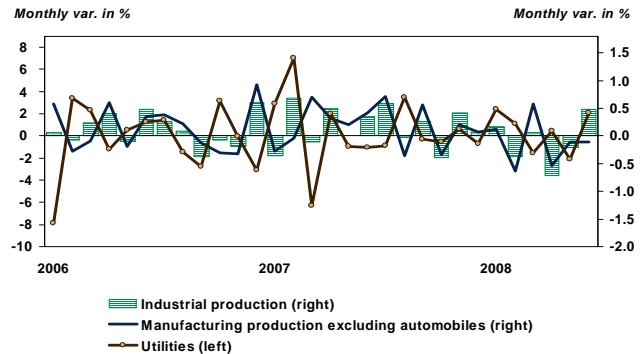
- Industrial production rose by 0.5% in June after dropping 0.2% in May.
- The manufacturing sector's output rose 0.2%, while mining extraction advanced by 1.1%. Utilities saw output rise 2.1%.
- In the manufacturing industry, the automotive sector recovers from the work stoppage that had been going on for a few months with a 5.4% increase. Activity has pulled back in non-durable goods, machinery, metal products, furniture and mineral products.
- The industrial capacity utilization rate rose, going from 79.4% to 79.9%.

COMMENTS

The size of June's increase in industrial production is surprising, clearly beating expectations. However, this growth seems very fragile; it is based on fairly unstable, even ephemeral factors. Much of the gain thus comes from the increase in output by electricity suppliers, occurring after a 2.7% decline the previous month. Note that this component's monthly fluctuations primarily stem from fluctuations in the temperature compared with seasonal averages.

The automotive industry represents about 5% of American industrial production. However, the major changes in auto production do a lot to explain the fluctuations in total production. This is what happened over the last few months, during the strike at an auto parts manufacturer. The strike ended in May, and the month was already showing a substantial rebound (+0.6%). The effect expanded in June, with production up 5.4%. We should not expect more gains of this magnitude, however, as the U.S. automotive market is in a precarious situation, especially in terms of domestic production, which often focuses on vehicles that consume more fuel. The sector's restructuring will rein in automotive production over the next few months. However, June's jump helped manufacturing production to see its first increase since March. Yet, if we exclude the automotive industry, the gain turns into a 0.1% decline.

Industrial production's rebound mainly stems from energy suppliers and the automotive industry



Sources: Federal Reserve Board and Desjardins, Economic Studies

This means that, without the probably ephemeral contribution from cars and energy, production growth is still anaemic, if not negative. It is this trend that could come back to haunt the U.S. economy over the next few months.

Implications: The increase in industrial output is good news which we may not see again in the near future. It does not do away with the more general concerns about the U.S. economy's strength. It also leaves production 0.8% below its high point at the beginning of this year; production is one of the variables the National Bureau of Economic Research uses in declaring an official recession. These circumstances do not argue in favour of interest rate increases.

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