Modest increases in industrial production and inflation

HIGHLIGHTS

- Industrial production crept up by 0.3% in June after a 0.3% downturn in April and stagnation in May. Manufacturing production also rose by 0.3%. Mining sector activity advanced by 0.8% but energy production dipped by 0.1% (after a 2.8% decline in May). The industrial capacity utilization rate edged up from 77.7% to 77.8%.

- The consumer price index (CPI) was up by 0.5% in June after a 0.1% uptick in May and a 0.4% loss in April. Energy prices rose by 3.4%, while food prices gained 0.2%. For the second month in a row, the core index, which excludes food and energy, rose by 0.2%. The annual variation of the total CPI was up, from 1.4% to 1.8%. Core inflation moderated, from 1.7% to 1.6%.

COMMENTS

After two months of sluggishness, the June growth in industrial production comes as welcome news. Moreover, the 0.3% gain in the manufacturing sector stands in contrast with the slackness recorded in employment and in hours worked during that month. Therefore, the 0.3% increase in manufacturing surpasses our expectations. It was mainly solid growth in the automotive (+1.3%), machinery (+1.5%) and food (+0.8%) sectors that supported production, in the wake of somewhat less rosy numbers in May. The modest upturn in manufacturing production also reflects the slight improvement in the ISM index in June. The improvement in the regional manufacturing indexes suggests that industrial activity will be even livelier in July.

After several months of decline or meagre growth, energy prices came back to haunt the CPI in June. The increase is mainly attributable to higher gasoline prices, whose 6.3% surge was greatly exacerbated by seasonal adjustments (gasoline prices tend to fall in June). Apart from energy, we note a 0.9% jump in clothing prices. June’s increase takes the total CPI further away from the 1.1% trough recorded in early spring, but the annual variation of the core index, also excluding shelter, has fallen to its lowest level since the end of 2010.

Implications: While it may be rather soft, the increase in manufacturing production is nevertheless encouraging. We hope for more robust growth in the months ahead. As for prices, the upturn in total inflation and the drop in core inflation end up leaving the overall picture practically unchanged.

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