

ECONOMIC NEWS

United States: Colder weather makes industrial production rebound

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.3% in December after advancing 0.2% in November. Energy prices rose 1.5%. Food prices stagnated for a sixth straight month, The core index, which excludes food and energy, went up 0.2%, as in November. The total CPI's annual change went from 1.7% to 2.1%, while core inflation went from 2.1% to 2.2%. For 2016 as a whole (annual average), total inflation stands at 1.3%. Core inflation is 2.2%, the strongest growth since 2008.
- ▶ Industrial output rose 0.8% in December after dipping 0.7% in November. Manufacturing production gained 0.2% after retreating 0.1% the month before. Mining sector activity was stable. Energy production jumped 6.6%, the strongest monthly growth since December 1989. For 2016 as a whole, industrial production retreated 1.0%, after 2015's 0.3% gain.

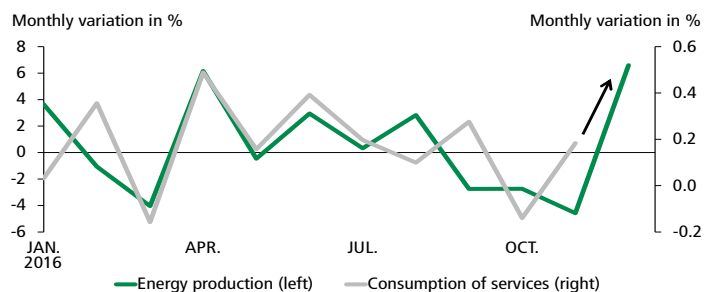
COMMENTS

Industrial production rebounded more than anticipated. The predictable impact on heating demand as a result of the return of colder weather after a very warm fall was much bigger than forecast. Another positive factor is that manufacturing has started to grow again, supported by the auto sector, machinery and metallurgy; these sectors all recorded declines the previous month. For 2016 as a whole, industrial output's first annual pullback since 2009 is of course disappointing, as is the stagnation in manufacturing. The strong U.S. dollar, the difficulties in the global economy and problems in the oil sector early in the year are all factors that had a hand in the poor performance.

December's increases in the total and core CPI conform to the forecasts. Note, however, the prolonged weakness in food prices, which have not increased since April. December also saw a big

GRAPH

The jump in heating demand suggests strong growth by service consumption in December



Sources: Federal Reserve Board, Bureau of Economic Analysis and Desjardins, Economic Studies

0.7% drop in clothing prices, which probably played a role in the weakness in retail sales.

IMPLICATIONS

The rebound by industrial output could be temporary, as it primarily comes from shifts in the weather. The increase in energy production should also show up as an increase in the consumption of services in December, which will help make up for fairly disappointing retail sales. We can hope that total industrial production will grow better this year, even if the U.S. dollar remains very strong. In terms of prices, robust core inflation will put the Federal Reserve closer to its inflation target.

Francis Généreux, Senior Economist

François Dupuis, Vice-President and Chief Economist

Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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