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Industrial Production, June 2009



Eugene Lancaric, CFA
Multi-Asset
Strategies and
Solutions Group

Industrial production fell less than forecast in June, with declines in production in both manufacturing and mining but a weather-driven spike in production at utilities. Revisions to production data for the first five months of the year were immaterial. Capacity utilization continued to decline, but the decline in both total utilization and manufacturing utilization was less severe than seen in previous months. The report points to an eventual stabilization in production later in this quarter as this cycle's huge inventory drawdown tapers off.

- Total industrial production fell 0.4% in June, following a revised 1.2% May decline (first reported at -1.1%). The mean forecast had been for a 0.6% decline, with individual forecasts ranging from -1.1% to +0.2%. Revisions to production data for the first five months of 2009 were on average close to zero, with a slight upward revision for March largely offsetting downward revisions to January and May. June's decline was the smallest monthly contraction seen since world economic conditions began worsening in August and September of last year.
- Manufacturing production fell 0.6%, compared with a 1.1% decline in May. Manufacturing production fell at a 10.5% annual rate in the second quarter, more moderate than the 22% rate seen in the first or the 18% rate seen in 4Q08. Consistent with previous months, the decline was more severe for durable goods than for non-durables, but the pace of decline was more moderate in many categories. Motor vehicle production fell 2.6%, the largest decline of any major industry, but a much less severe fall than May's 8.2% decline. Vehicle assemblies were at a 3.95 million seasonally-adjusted annual rate (SAAR), less than half their 2008 average of 8.45 million. In June, machinery production fell nearly 2%, electrical equipment fell 1.5% and IT equipment fell 1.1%. Production increased for wood products, primary metals, aircraft and miscellaneous durable goods.
- Non-durables manufacturing fell 0.4%, as chemical production fell 1.0% and apparel production fell nearly 5%. Production of petroleum, plastics and rubber products all increased modestly. Mining production fell 0.5%, a much less severe decline than the 2.1% average decline of the previous four months.
- Production at utilities rose 0.8% as natural gas utilities raised production 3.6% and electric power production rose 0.3%. Both these increases reflect unusual weather patterns in the month, including unusually hot weather in the Southeast and Texas.
- Capacity utilization declined to 68.0%. Utilization in manufacturing fell to 64.6%, with the motor vehicle industry operating at only 37.3% of capacity due to the GM and Chrysler shutdowns. Utilization in durable goods manufacturing was 57.8%, down from 58.1% in May, and utilization in non-durables manufacturing was 72.3%, down slightly from 72.5%.

Source: U.S. Federal Reserve

The rapid decline in industrial production seen late last year and early in 2009 reflects firms' responses to the incremental weakness in final demand and the greater financial tightening that started last September. As we've emphasized, the decline in production in many industries, particularly durable goods, was much greater than that in final demand, and a large inventory liquidation thus resulted. Provided that final demand remains intact (even at lower levels), inventory liquidation should moderate over the next few quarters and industrial production begin to recover late this year. ■

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