Daiwa Capital Markets

U.S. Data Review

- Industrial production: further improvement in June
- Other data: surge in the Empire index; moderate increase in non-petro import prices

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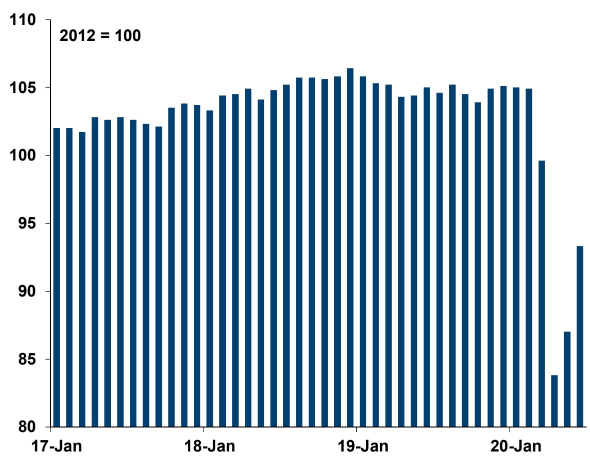
Industrial Production

Industrial production rose 5.4 percent in June, exceeding the consensus estimate of 4.3 percent. The increase followed a gain of 1.4 percent in the prior month, with the combined changes recouping approximately 35 percent of the ground lost because of the pandemic. Utility output contributed to the increase in the headline measure in June with an increase of 4.2 percent. This change was largely the result of warmer-than-normal temperatures which heightened demand for cooling services.

The manufacturing sector played a larger role with an increase of 7.2 percent, which followed a gain of 3.8 percent in May. The advances in the past two months have offset approximately 45 percent of the deterioration associated with the coronavirus (chart, left). The auto industry had a strong influence on manufacturing activity, as this sector jumped 105 percent in June after a surge of 120 percent in May. However, the industry was largely shut down in April, and thus the changes occurred from an unusually low base. Despite the gains, auto production was still approximately 30 percent below the pre-virus average from January and February. While auto production stood out in June, other areas also were firm, as shown by a jump of 3.9 percent ex-autos in June after a gain of 1.9 percent in May. The latest increase was remarkably broad-based, as all 19 of the non-auto industries published with the report advanced. Manufacturing ex-autos has retraced approximately one-third of the ground lost because of the virus.

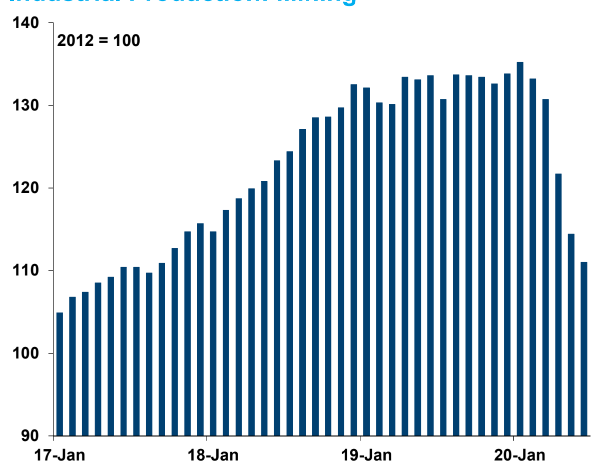
The mining sector continued to struggle in June, as the drop of 2.9 percent represented the fifth consecutive decline. The cumulative change over this span has totaled 17.9 percent and pushed activity to its lowest level since September 2017 (chart). The extraction of oil and natural gas has accounted for much of the slippage, but other activity also has weakened.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



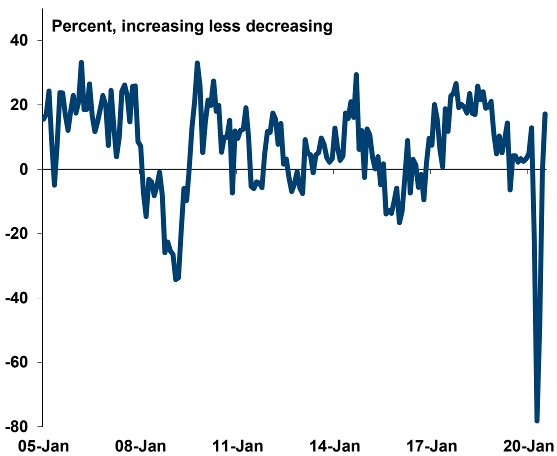
Source: Federal Reserve Board via Haver Analytics

Empire Index & Import Prices

After touching a record low in April, increases in the next three months pushed the Empire index back to a comfortable position (chart, below left). The July reading of 17.2 (possible range of -100 to +100) was above all observations from last year and not far below the average 19.7 from 2018, which was the best year of the previous expansion for this measure. Recent changes have been striking, but do not overly weight their significance, as this measure is highly volatile.

Import prices rose 1.4 percent in June after an increase of 0.8 percent in May. The latest increase was a touch firmer than the expected increase of 1.0 percent. The changes in the past two months were led by petroleum products, as the price of crude oil in May and June retraced a portion of its tumble in the first four months of the year. Prices of nonpetroleum imports have increased in the past two months after softening in March and April with the slowing in the global economy. The ups and downs of nonpetroleum import prices have left little net change in the past several months and in the past year (chart, below right).

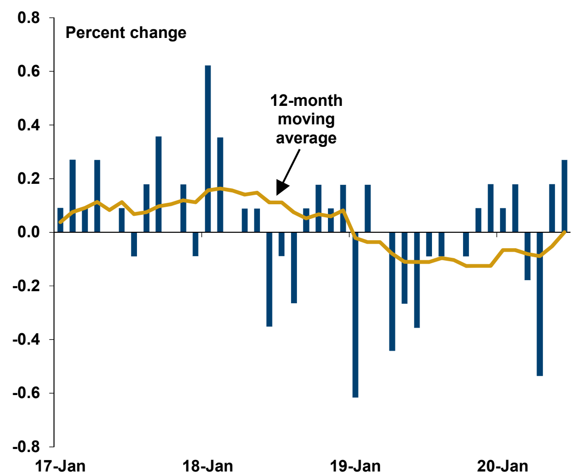
Empire State Mfg Survey: Headline Index*



* The share of respondents indicating that conditions are better than those in the previous month less the share indicating that conditions are worse.

Source: Federal Reserve Bank of New York via Haver Analytics

Import Price Index: Nonpetroleum Imports



Source: Bureau of Labor Statistics via Haver Analytics