

U.S. Data Review

- Industrial production: respectable results in manufacturing and mining

Michael Moran

Daiwa Capital Markets America
 212-612-6392
 michael.moran@us.daiwacm.com

Industrial Production

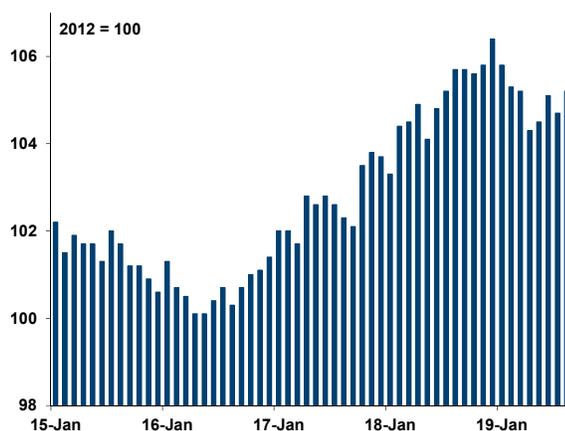
The industrial production report provided an upside surprise in August, with growth of 0.6 percent easily exceeding the consensus estimate of 0.2 percent. All three components contributed to the advance: manufacturing output rose 0.5 percent, mining activity jumped 1.4 percent, and utility production increased 0.6 percent.

The advance in manufacturing followed a drop of 0.4 percent in the prior month, and the level of activity still trailed results seen during most of last year. Nevertheless, we viewed the results as encouraging. The downside risks to the U.S. economy associated with slow global growth and trade tensions would be expected to hit the manufacturing sector hard, and activity indeed eased in the early months of the year. However, production has increased in three of the past four months, allowing this sector to regain some of the lost ground (chart, left). This sector cannot be considered strong, but damage from slow growth abroad and trade tensions has not been severe thus far. The increase in August was broadly based, with 13 of 20 industry areas posting gains. The auto sector, often a source of volatility in manufacturing, fell 1.0 percent, but other areas jumped 0.6 percent and provided an offset.

The jump of 1.4 percent in mining activity offset nearly all of the drop in the prior month and returned production to the upper portion of its recent range (chart, right). Oil and gas extraction accounted for most of the increase (up 2.2 percent), but other activity also was firm (up 1.0 percent). With the price of crude oil near \$60 per barrel, drilling activity should remain firm.

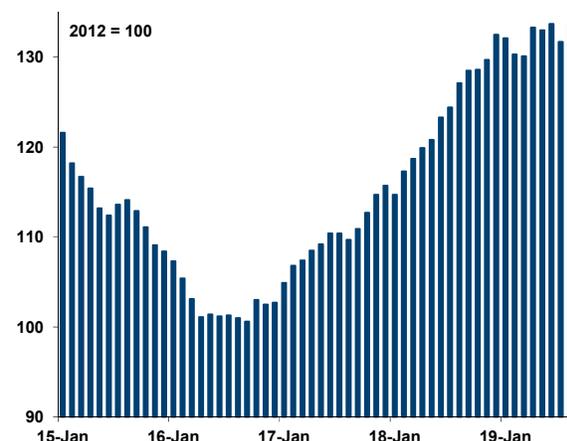
Utility production posted a solid advance in August, although the level of activity was mid range. This sector is volatile, with changes nearly always driven by shifts in temperatures rather than economic fundamentals.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.