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## June Industrial Production: Still A Long Road Back

- › Industrial production rose by 5.4 percent in June, with manufacturing output up by 7.2 percent
- › The overall capacity utilization rate rose to 68.6 percent, while the utilization rate in manufacturing rose to 66.9 percent
- › On a year-over-year basis, total industrial production is down by 10.8 percent as of June, with manufacturing output down by 11.2 percent

Total output amongst the nation's factories, mines, and utilities rose by 5.4 percent in June, topping our above-consensus forecast of a 4.7 percent increase. Manufacturing output rose by 7.2 percent, stronger than our forecast anticipated, with broad based gains across the factory sector. Utilities output rose by 4.2 percent, while output in the mining sector fell by 2.9 percent, a much smaller decline than those seen in April and May but nonetheless the fifth consecutive monthly decline. The overall capacity utilization rate rose to 68.6 percent, with the utilization rate in the manufacturing sector rising to 66.9 percent. The report on June industrial production is in keeping with what thus far has been a common theme in the economic data for the month of June – better than expected with the caveat that most of the June data were collected prior to the jump in COVID-19 cases late in the month that has persisted into July. While it is true that factories have been exempt from what thus far have been targeted rollbacks of reopening measures in response to the jump in COVID-19 cases, that does not necessarily mean manufacturing is immune, as any barriers to the budding economic recovery, here or abroad, will ultimately impact the factory sector. As it was, the manufacturing sector was facing a long road back from the brief but violent downturn associated with the COVID-19 virus and the efforts to stem its spread, but these recent developments mean that road may be longer, and bumpier, than had been anticipated.

Assemblies of autos and light trucks rose to an annualized rate of 8.27 million units in June – recall that assemblies fell to virtually zero in April in the midst of the shutdowns imposed in the early phases of the pandemic. Though motor vehicle sales fell sharply, they have nonetheless rebounded more strongly than had been expected, which went a long way toward clearing what had been elevated inventories. As such, manufacturers, particularly manufacturers of SUVs/light trucks, are pressed to keep pace with sales, so further increases in assemblies are likely in the months ahead. That said, unless and until there is a more vigorous rebound in the labor market, there is a limit on how high sales will rise, and our forecast anticipates unit motor vehicle sales will remain below pre-pandemic levels at least through 2022. In other words, the support that motor vehicle production is providing for overall manufacturing output is likely to be transitory barring a more rapid recovery in the labor market and the broader economy than we now anticipate will be the case.

Excluding motor vehicle production, manufacturing output was up by 3.9 percent in June, following up on May's 1.9 percent increase, though this still leaves a deficit of 10.1 percent on an over-the-year basis. Production of business equipment, a reliable indicator of business investment in equipment & machinery as reported in the GDP data, rose by 11.8 percent in June after having risen by 7.4 percent in May. Still, even before the severe declines seen in March and April, production of business equipment had been wavering, to the point that it remains down 18.2 percent year-on-year. Our baseline forecast anticipates business investment will lag the broader economy over the forecast horizon, as was the case for much of the prior cycle. The combination of a slow-growth environment and a considerable degree of idle capacity will act as a considerable drag on business investment, though two areas that will likely outperform are information processing and communications equipment as firms continue to push for productivity gains in what is likely to be a changing work landscape.

The pace of the recovery, here and abroad, will also help shape the fortunes of the mining sector. Though oil prices have come back from April's steep decline, they nonetheless remain below what for many domestic producers are break-even prices, and active rig counts remain significantly depressed. If we are correct in expecting a slow recovery in the broader economy, that suggests limited upside for, and less capital spending in, the energy sector.

