US industrial production in July

United States

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U.S. industrial production growth less than expected. Robust capital allocation toward information processing, advanced machinery, and AI infrastructure drives expansion

In July, U.S. industrial production maintained its upward trajectory, increasing for the second month in a row due to ongoing strength in manufacturing associated with factory output. Manufacturing activity advanced by 0.2% on a month-over-month basis, following a revised growth of 0.3% in June. Economists had expected 0.4% growth. The ongoing robustness in electronics investment tied to data centers and machines offset the reduction in motor vehicle and parts manufacture. Strong capital investment in information processing, high-tech machinery, and AI infrastructure contribute to growth. On a quarter over quarter annualized basis manufacturing advanced a strong 3.7%.

Data released by the Federal Reserve indicates that manufacturing production increased by 0.2% month-over-month following a 0.3% rise in June. Manufacturing output, excluding motor vehicles and components, increased by 0.4%, while the production of motor vehicles and parts declined by 2.1%, although for the quarter growth was strong vs. the immediately prior period. Output of durable goods increased by 0.7% month-over-month, with the sectors of computers and electronics, electrical equipment and components, and aircraft expanding by 1.9%, 1.3%, and 1.4%, respectively. Nondurable manufacturing experienced a month-over-month decrease of 0.4%. In general terms the data suggest strong investment driven growth.

Figure 1. Evolution of the U.S. industrial production

	Annual Change		Shorter term change[1]	
Sector	**Monthly**	**Quarterly**	**m/m**	**q/q**
Manufacturing	**1.3%**	**1.5%**	**0.2%**	**3.7%**
Durable	3.9%	3.8%	0.7%	9.3%
Motor vehicles and parts	2.1%	1.8%	-2.1%	15.1%
Nondurable	-1.6%	-1.1%	-0.4%	-2.3%
Mining	**1.0%**	**0.9%**	**0.2%**	**1.0%**
Utilities	**0.7%**	**1.2%**	**0.5%**	**0.7%**
Total	**1.1%**	**1.3%**	**0.2%**	**2.8%**

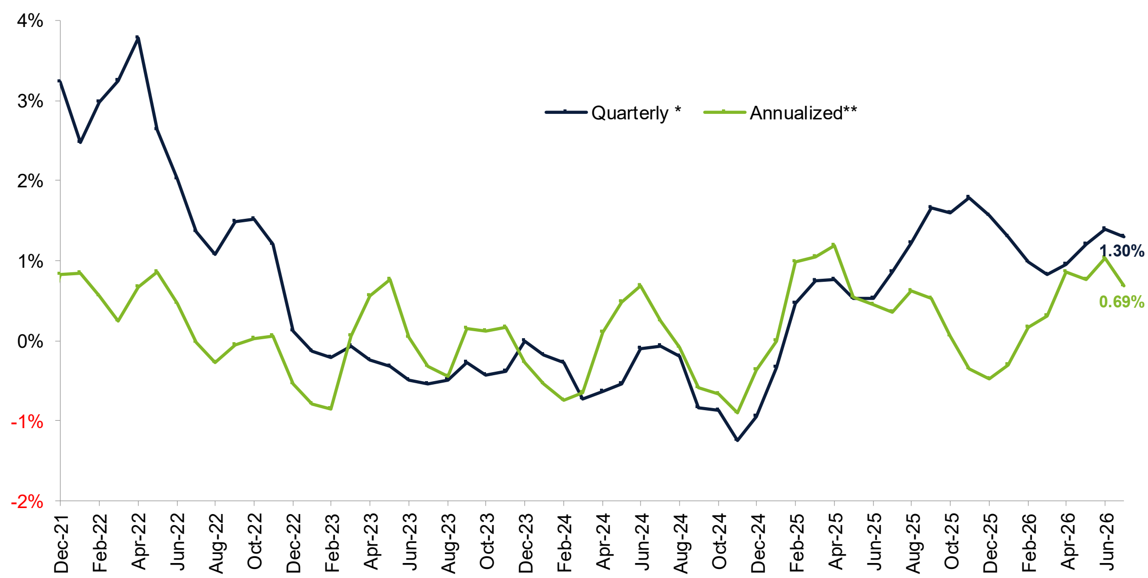
Source: HR Ratings based on US Census Bureau and FRED data. Seasonally adjusted data.
[1] Month over month and quarter over immediately prior quarter annualized.

According to the report, business equipment manufacturing experienced a 0.8% rise, preserving a positive annual increase (+6.0%) attributed to capital expenditures on information processing, high-tech machinery, and AI infrastructure enhancements. The output of defense and aerospace equipment experienced a 1.8% month-on-month increase, demonstrating significant continuous momentum and requirements in military production. Despite the rise of high-tech and defense industries, conventional fields like automotive manufacture face periodic pullback.

In July, the mining and utilities indices experienced increases of 0.2% and 0.5%, respectively. U.S. utilities output had the highest increase in the previous three months, following a modest 0.1% growth in June. This surge was mostly a result of warm summer conditions amplifying the demand for air conditioning. Over the medium to long-term, power consumption from data centers and high-tech facilities will demand higher electricity generation by power plants.

On an annual basis, industrial production rose by 1.1%, driven by stable yearly advancements in manufacturing, utilities, and mining, along with significant investments in technology and defense equipment. Expenditure on data centers has partially offset the downturn in the automotive and consumer goods sectors.

Figure 2. Evolution in manufacturing production



Source: HR Ratings with data from INEGI and the FED

*Present quarter compared to the corresponding quarter of the preceding year.

**Present quarter compared to the directly prior quarter.

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