

United States

Industrial production rises in June, but not enough to allay signs of slowing economy

- **Industrial production grows just 0.1% in Q2 as manufacturing stagnates**
- **Weak industrial data add to signs of GDP slowdown in Q2**
- **Business surveys point to darkening outlook**

US industrial production beat expectations in June, but the underlying trend remains one of a sector that is slowing as manufacturing output stagnates. Alongside weak retail sales data, the official data are pointing to an altogether disappointing second quarter, with the economy set to have grown at about half the rate of that seen in the first quarter. Further weakness may well lie ahead.

US industrial production rose slightly more than expected in June, up 0.3% against expectations of a 0.2% rise. Manufacturing also beat expectations, with output increasing 0.3% compared to a 0.1% anticipated rise. However, the three-month growth rate – which provides a more reliable indication of the production trend – showed a more or less flat picture of just 0.1% growth in the second quarter, contrasting with a 1.1% surge in production in the first three months of the year. Manufacturing output was flat in the three months to June.

Second quarter GDP slowdown

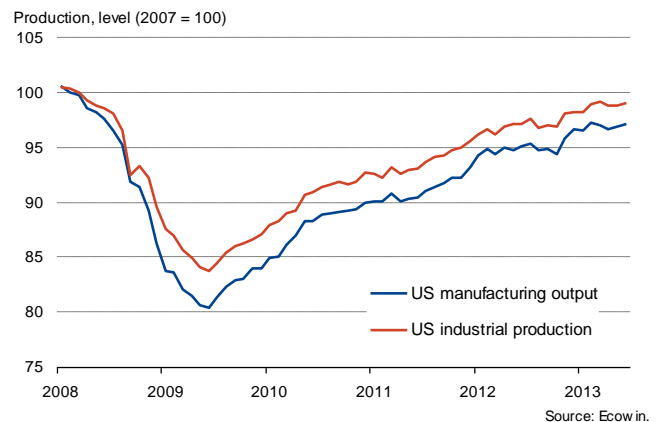
The industrial data therefore come at the same time as weak retail numbers suggest that consumer spending growth is waning as tax hikes at the start of the year start to eat into disposable incomes. Retail sales rose by a disappointing 0.4% in June, half the increase that analysts had been expecting. Core sales fared even worse, rising just 0.1% to register the weakest increase since January.

The data therefore collectively spell bad news for second quarter gross domestic product. GDP rose at an annualized rate of 1.8% in the first quarter, but the US will be lucky to even see half of that rate of growth in the second quarter.

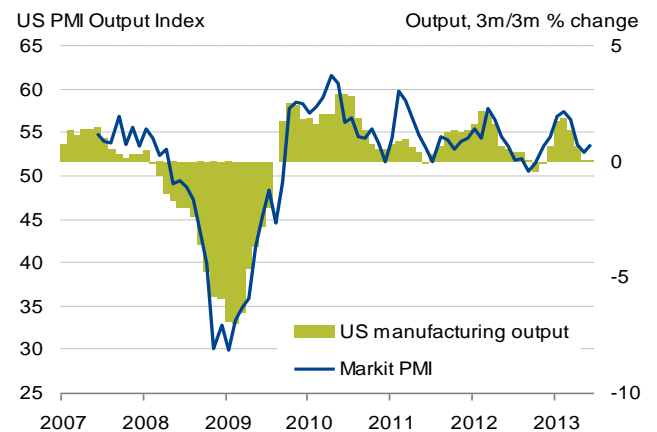
The third quarter may also be disappointing in terms of economic growth. Surveys such as Markit's manufacturing PMI, which fell to an eight-month low in June, meanwhile also suggest that the growth rate is likely to have weakened as we move into the second half of the year. Companies reported especially weak demand from export market, with new export orders falling at the fastest rate since August 2009.

Markit's global business outlook survey meanwhile found US companies to be the least optimistic about the coming twelve months than at any time since the 2008-9 financial crisis.

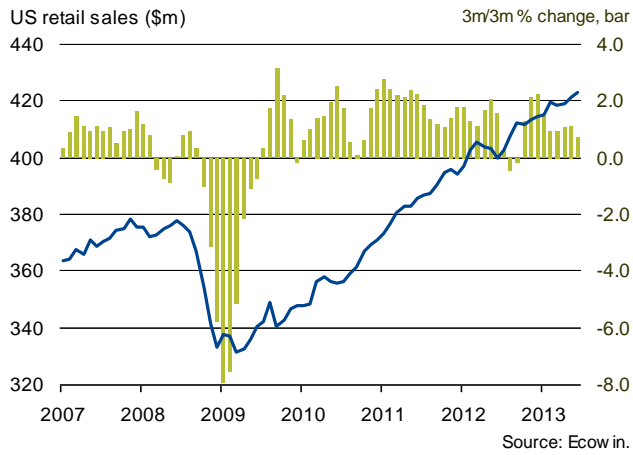
Industrial production and manufacturing



Manufacturing growth trends



Retail sales



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For further information, please visit www.markit.com