US industrial output decline slows

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There were some encouraging signs on the US economy on Wednesday morning, as new data released by the Federal Reserve showed the rate of industrial production decline slowed faster than expected and inflation continued to show only moderate rises.

Industrial production decreased just 0.4 per cent in June, its slowest rate in eight months, after a 1.2 per cent decline in May. Economists had been expecting a 0.6 per cent decline.

Output fell at an annual rate of 11.6 per cent for the second quarter, compared with 19.1 per cent in the first quarter.

"This is a sign that the worst is definitely behind us, manufacturing is stabilising. We'll see some growth in the second half, though it will be slow and somewhat weak," said Joseph Brusuelas, director of Moody's Economy.com. The major bright spot, he says, will be in the automotive sector. "We'll see a big pick up in industrial production due to a pick up in auto production later this summer."

The output declines have continued to disproportionately affect the struggling car and housing industries. Production of automotive products fell 2.1 per cent in June, bringing the year's decline to 32.5 per cent. Major household goods fell 1.9 per cent or 21.0 per cent over the past year.

Still, capacity utilisation fell to 68.0 per cent, compared with an average of 80.9 per cent between 1972 and 2008, and its lowest level since records began in 1967.

New York manufacturing also showed signs of improvement, as separate figures released by the Federal Reserve bank of New York showed that conditions did not further deteriorate in July. The general business conditions index rose 9 points to -0.6. The new orders index also rose to 5.9 from -8.2, the first time it rose above zero since the recession began.

Meanwhile, petrol prices led US prices to their biggest increase in almost a year, but core inflation rose only moderately, the Bureau of Labor Statistics reported on Wednesday.

The consumer price index rose 0.7 per cent in June, slightly above economists' average expectation of a 0.6 per cent increase. Over 80 per cent of this was due to the increasing price of gasoline. Prices rose 0.1 per cent in May.

Overall prices have fallen 1.4 per cent over the past year, compared with an annualised rise of 3.3 per cent over the past month.

Core prices, which exclude the prices of food and energy, items seen as too volatile to be controlled by monetary policy, rose 0.2 per cent in June following a 0.1 per cent increase in May. Economists use the core index to judge the overall risk of inflation or deflation. Over the past year, prices in the core index have risen 1.7 per cent, compared with 2.4 per cent over the past three months.

The moderate inflation numbers should allow the Federal Reserve some extra flexibility with its monetary policy, says Brusuelas. "Inflationary fears in the market are overblown...[The Fed has] no cause to prematurely exit their monetary policy."

Energy prices continued to rise in June, though the price of oil has since fallen in July. The gasoline index rose 17.3 per cent in June, compared with 3.1 per cent in May. Falling electricity prices partially offset the increase, falling 1.9 per cent in June. The food index was steady in June after falling for the past four months.

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