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Industrial Production

May industrial production rises a roughly in-line 0.1% from a prior-month level revised down by 0.1%. The major point of weakness was utility output (-2.8%), while healthier increases were seen in mining activity (+0.5%) and manufacturing production (+0.4%).

Notably, the manufacturing gain was limited by a 1.5% decline in motor-vehicle-and-parts output, following on a 6.5% drop last month. Excluding that sector, manufacturing production rose 0.6%, following on a 0.1% declne last month. Strength in the new month was quite broadly spread.

Clearly, there is some issue in relating this very good performance to the 6.9-point drop seen in the May ISM index--incorporating a 9.8-point drop in the production index. Confidence that the industrial production story is the more valid one will be shaky at best, given the very clear volatility in all manufacturing-sector indicators lately--including the hint of further decline given by the latest Empire State numbers.

Still, the breadth of very solid ex-MV&P output gains in the production report today should sustain hopes that the disruption is centered in supply-chain difficulties and in the ripple effects that they cause. Fed panic will be likely suppressed for another month or two--though the case for a least a mild downgrading in the outlook next week is obviously strengthened.

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