



Economics Group

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Through Harvey Effects, Manufacturing Activity Holding Up

Industrial production tumbled 0.9 percent in August after Hurricane Harvey battered the Gulf Coast. The Fed estimates the storm sliced off 0.75 percentage points from manufacturing production last month.

Harvey Pummels Production of Nondurables Goods

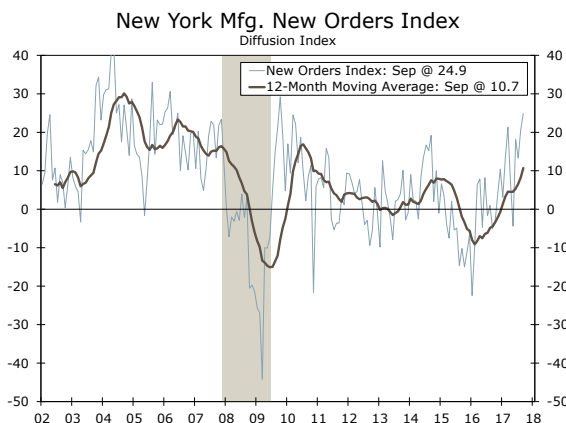
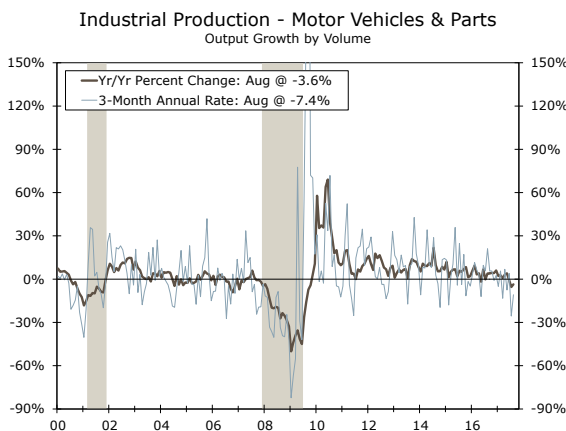
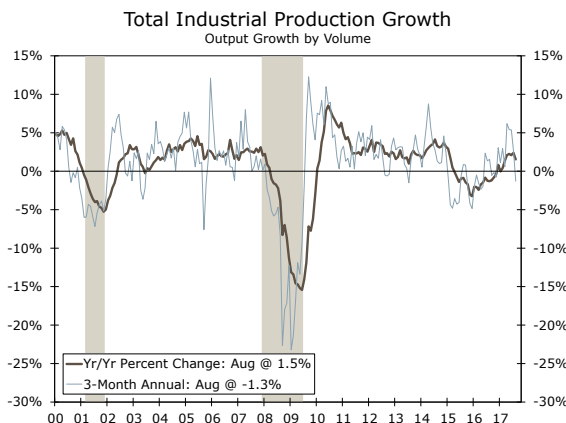
Industrial production contracted 0.9 percent in August as the early effects of Hurricane Harvey took hold. All major industry groups were down over the month. Utilities posted the steepest drop, down 5.5 percent. While Harvey likely weighed on demand in areas hit by the storm, mild temperatures across the United States, particularly the East Coast, led to lower usage of air conditioning last month. Mining production was down a more modest 0.8 percent. The pullback was driven by lower extraction of crude and natural gas, as well as reduced drilling for new oil and gas wells.

Elsewhere in the report, the impact of Harvey was more clear cut. Manufacturing output declined 0.3 percent last month as the storm hit the nation's energy center. Production at petroleum and coal plants fell 1.6 percent in August. An even bigger hit was taken by the chemical industry, where output sank 2.2 percent. More muted was the pullback at plastics and rubber manufacturers, where production fell 0.3 percent. Together, these three categories account for a quarter of manufacturing production. In total, the Federal Reserve estimates that the storm sliced off about 0.75 percentage points from total manufacturing output in August.

Limiting the pullback in manufacturing activity last month was stronger production among durable goods. Durables rose 0.3 percent last month amid strength in metals and transportation equipment ex-autos. Autos actually posted the largest increase among manufacturing industries last month, up 2.2 percent, but that still was not enough to reverse the previous month's decline. Although changing patterns in the timing and length of summer shutdowns can wreak havoc on the auto numbers this time of year, motor vehicle and parts output is down 3.6 percent over the last 12 months. With auto inventories still elevated, the trend in motor vehicle production will likely remain weak.

Empire State Survey Suggests Manufacturing Still Strong

The effects from Hurricanes Harvey and Irma are expected to plague much of the data for at least another month. Regional reports, as a result, will take on greater importance in order to isolate the impact of the storms and gauge recent activity. To that end, the Empire State Manufacturing index, the first of the regional purchasing managers' indices released for September, suggests that through the recent disruptions, factory activity remains strong. The index slipped 0.8 points in September, but at 24.4 remains at a high level. The headline index is based on a separate question of current conditions, but new orders rose to a seven-year high and shipments also improved over the month. Along with the strength in durable goods production, the Empire Survey suggests through the storm-related noise, manufacturing activity is continuing to grow at a decent pace.



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