

Economic Indicator — July 15, 2021

Supply Chain Problems Weigh on June Output, but July Empire Index Soars

Summary

Industrial production increased only 0.4% in June which was two tenths of a percent shy of the consensus expectation. Gains in mining (+1.4%) and utilities (+2.7%) offset a 0.1% dip in manufacturing, where supply chain problems continue to weigh on auto output. On the bright side, the New York Fed's Empire Index rose to a record in July.

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Manufacturing Production Soft Due to Slower Auto Output

Overall industrial production posted a gain of only 0.4% in June as increased activity in the nation's mines and utility operations were able to offset a modest decline in factory output.

Manufacturing output slipped 0.1% in June as crosscurrents in the factory sector resulted in some categories posting gains that were largely canceled out by other categories where output is still being constrained by supply chain problems.

There were bright spots within the factory sector in June. The aerospace and related transport equipment sector saw output increase 3.7% on the month, and primary metals production added 4.0%. But these gains were swamped by sharp declines in other categories like the 6.6% drop in motor vehicle output. Automakers continue to struggle to source much-needed inputs, particularly semiconductors, and the resulting choppiness in output is difficult to overstate. Without exception, motor vehicle and parts output has been up one month and down the next every month so far this year.

Consumer Shift from Goods to Services Not Yet a Problem

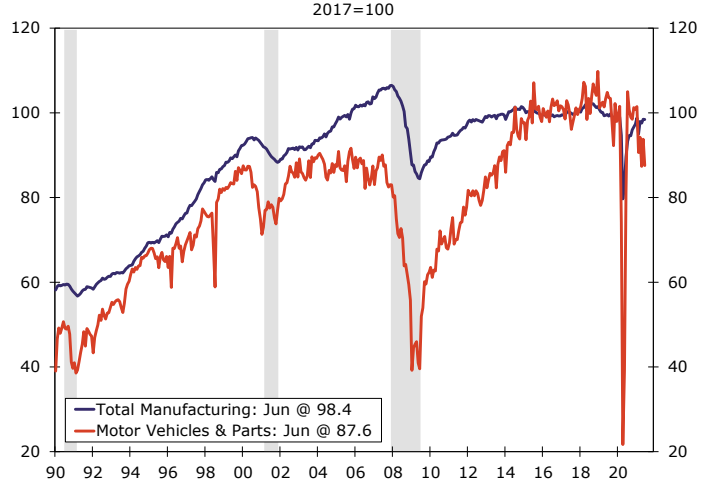
To a large extent, the sharp recovery in production in this cycle has had much to do with the robust demand in consumer goods spending. One dynamic that we have our eye on is the extent to which the shift from spending on *things* to spending on *experiences* could weigh on goods output.

The most obvious sign of that here could be autos, but again, that has more to do with supply problems. If the demand were not there, you would not see the big increases in used auto prices in recent months lifting the year-over-year change in prices for used cars to more than 45%.

Elsewhere, consumer output measures were a mixed bag. Home electronics output rose 2.5% and miscellaneous goods output rose 1.2%. However, output for appliances and furniture dropped, as did clothing and paper products. On the business side, production of information processing equipment rose for the fourth straight month.

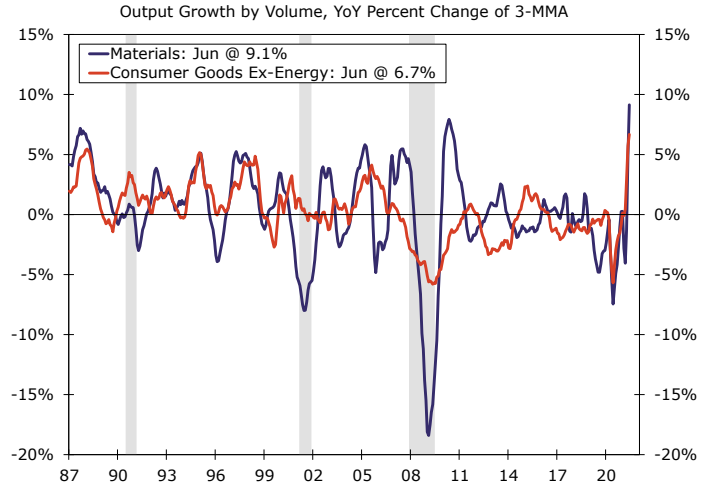
In short, demand is there, but the problem continues to be sourcing the input components and the skilled workers that remain in short supply, though there is some evidence of incremental improvement in other data released this morning.

Total vs. Autos Manufacturing Production



Source: Federal Reserve Board and Wells Fargo Securities

Industrial Production of Nondurables



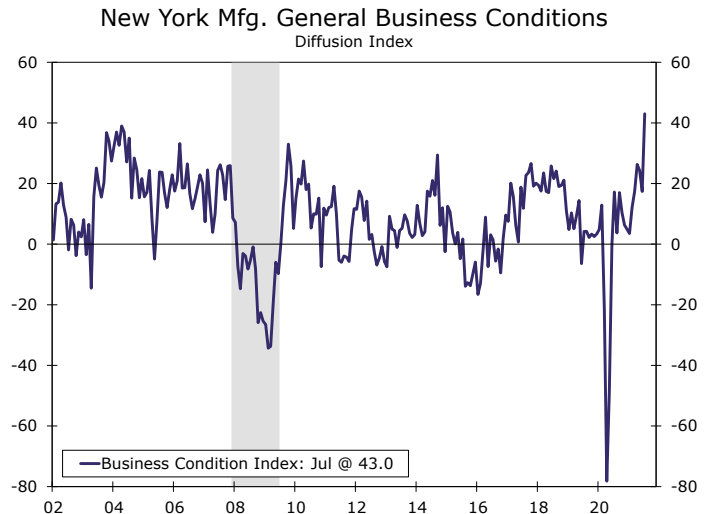
Source: Federal Reserve Board and Wells Fargo Securities

Start Spreadin' the News

Manufacturing activity is growing at a record-setting pace in New York state in July according to the New York Fed's latest Empire Manufacturing survey. The general business conditions index jumped twenty-six points to 43.0, the highest reading in this survey's 20-year history. Still some familiar problems persist. Long waits for deliveries are still an issue, with the delivery times index at 20.2; although it bears noting that is down almost 10 points. Firms are still facing long delivery times, but things are less dire. This was also evident in the shipments component, which shot up 30 points to 43.8. The new orders index climbed 17 points to 33.2.

In addition to supply chain problems, another area of scarcity at factories has been labor. Manufacturing job growth has been hit-and-miss in recent months amid widely cited difficulty finding help among manufacturers, but there were some signs of improvement here as well. Numbers in the July survey show that more people are ready to make a brand new start of it in old New York; the employment index climbed 8 points to 20.6, and the average workweek index held steady at 14.0.

Price measures remain at or near record highs. Prices paid dipped a tiny bit to 76.8, but businesses are flexing pricing power; prices received jumped to 39.4, the highest level on record.



Source: New York Federal Reserve and Wells Fargo Securities

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