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Economic Indicator — January 14, 2022

An Unexpected Decline in Industrial Production

Summary

Industrial production unexpectedly fell 0.1% in December despite indications that wait times are shortening and other signs of initial improvement with the supply chain problem. A surge in mining output prevented an even larger decline.

Economist(s)

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283

Shannon Seery
Economist | Wells Fargo Economics
Shannon.Seery@wellsfargo.com | 704-410-1681

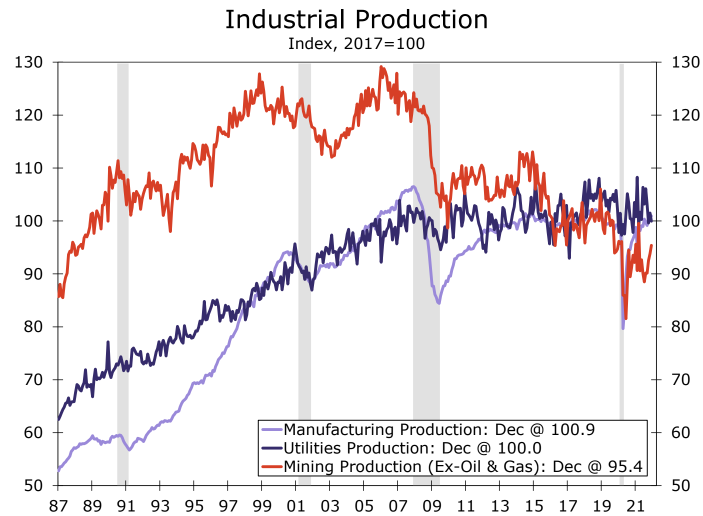
Still a Supply Problem, Poor Gulliver

Total industrial production edged slightly lower in December with a 0.1% decline in the last month of the year. Upward revisions to prior month's data may take some of the sting out of today's unexpected decline, but the main message is that despite some improvement, manufacturing output is being held down by tangled supply lines like the many ropes of the Lilliputions that held down Gulliver.

Manufacturing, which comprises more than three quarters of all output, saw a 0.3% decline, with motor vehicle and parts production down 1.3% in the month. Aside from October, when motor vehicle output had a spurt of growth, this category generally has been a persistent headwind to overall manufacturing. Consider the fact that year-over-year, motor vehicle production was down 5.9% in December against the backdrop of massive demand for autos, which has bid up the price of used cars and helped stoke inflation in recent months. This has been and continues to be a supply problem, not a demand problem.

Utilities output fell 1.5% in December as most of the central United States experienced temperatures that were as much as 20 degrees Fahrenheit above normal.

Mining continued to be a relative bright spot with a 2.0% monthly increase in December, which helped offset the declines in other areas. Mining finished the year with 11.0% higher output than it had at the start.



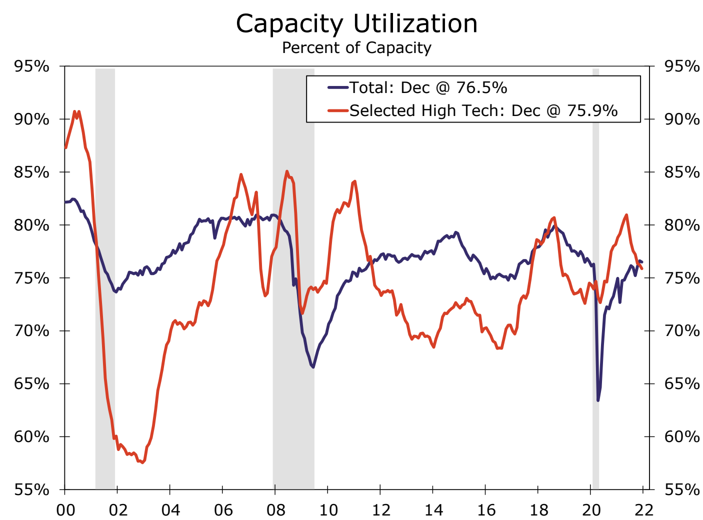
Source: Federal Reserve Board and Wells Fargo Economics

Capacity Utilization Signals Choke Points in Supply Chain

A silver lining in the report was a 0.3% gain in production in high-tech industries like computers, communications equipment, semiconductors and electronics. Not only have some of these categories seen the brunt of strapped supply and output perhaps signals some easing in bottlenecks, but they're also indicative of broader business investments that can improve productivity.

Overall capacity utilization slipped to 76.5% from a downwardly revised 76.6% in November. But capacity varies widely across industries. Capacity utilization of high-technology industries remains lower than the broader economy-wide measure at 75.9% in December. The computers and peripheral equipment industry has seen a large gain in capacity utilization registering 88.6% in December, the highest since late 2010. But communications equipment and electronic components' capacity remain strained confirming choke points in the supply chain.

Capacity remains severely constrained in the motor vehicles & parts (69.8%) and aerospace (71.7%) industries, which together represent about 11.5% of total production in the U.S. economy. Food & beverage capacity also remains strained at 76.0% relative to pre-pandemic norms and representing 12.2% of output alone also is weighing on the nations overall capacity. That said, other categories, like chemical products (nearly 12% of total output), nonmetallic mineral products and apparel have seen utilization more than fully recover as supply problems abate.



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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Mark Vitner	Senior Economist	704-410-3277	Mark.Vitner@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	704-410-1437	Sara.Cotsakis@wellsfargo.com
Jessica Guo	Economic Analyst	704-410-4405	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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