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Economics Group

WELLS FARGO SECURITIES

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After Four Years, A New High for Industrial Production

With contribution from all three industry groups, industrial production increased 0.7 percent in April to reach a fresh all-time high for the first time since 2014.

Back to Where We Were, But This Time With Broader Support

After the recession, it took until 2014 for overall industrial production to get back to its pre-recession peak (top chart). Later that same year, oil prices started a multi-year decline and energy-related investment dried up. It was a surge in the production of energy materials that propelled overall industrial production growth between 2009 and 2014, as the middle chart shows. A temporary unwinding of that mining activity weighed on broader production measures for a time, but has been supportive again more recently as energy prices have rebounded.

What is different about this cycle peak (relative to 2014) is that it comes with a concomitant firming in the manufacturing sector more broadly. Admittedly, manufacturing production is still roughly 5 percent below where it was in December 2007, but the growth rate is picking up on trend. As the bottom chart shows, the year-over-year growth rate for manufacturing production is tracking more closely to overall industrial production than it was in 2014, when there was an outsized contribution from energy-related spending. The upshot from our perspective, is that the moderate growth we expect in business spending has a broader base of support and, on that basis, should be less vulnerable to the fickleness of energy prices.

For the time being at least, oil prices have been trending higher and that has been broadly supportive for some categories of production. Mining output increased 1.1 percent in April, marking the third straight monthly gain for this category.

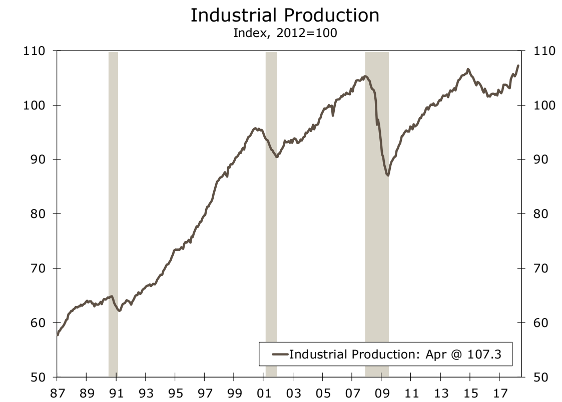
Utilities Output Up As Temperatures Dipped

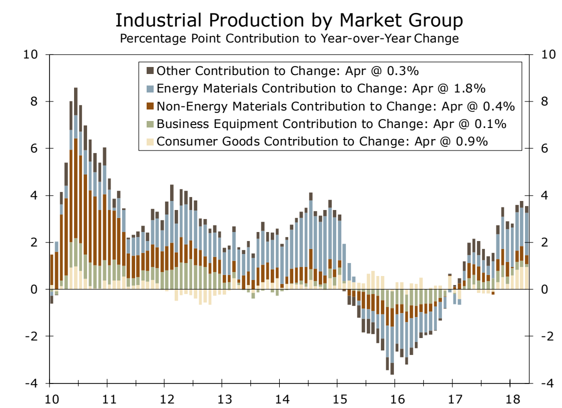
It was the 13th coldest April on record in the contiguous United States. In most parts of the country, April is a month when the heat is still running and most places have not yet switched over to air conditioning. There was a 1.9 percent increase in utility output in April. Looking into the details, electrical output was up just 0.5 percent, but natural gas output shot up 10.3 percent just during the month of April alone and was up a whopping 32.3 percent relative to April of 2017.

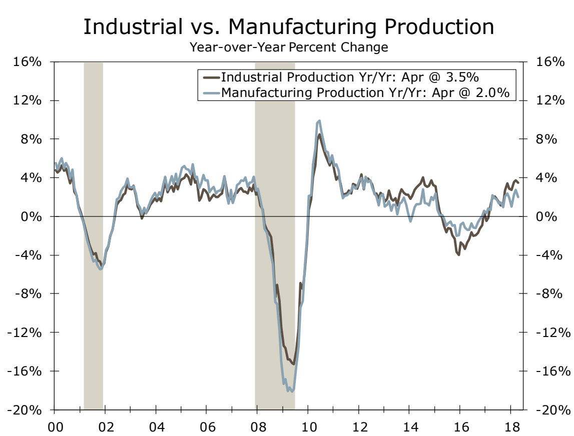
Capacity Utilization

Capacity utilization hit 78 percent for the first time since 2015 as slack is gradually drawn out of the system. Not surprisingly, the mining sector is the closest to experiencing capacity constraints at 90.6 percent, followed by utilities at 79.2 percent. As has been the case throughout this expansion, the manufacturing sector has a bit more slack; utilization is just 75.8 percent.

By this measure, we are not yet at a point where we need to worry about serious inflationary pressure from the factory sector.







Source: Federal Reserve and Wells Fargo Securities

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