Economics

Economic Indicator — April 16, 2024

Picking Up Off the Mat: Manufacturing Output Sees Second Month of Gains

Summary

After spending the better part of the past year in the doldrums, the factory sector is showing signs of life. Industrial production rose 0.4% in March, coming on the heels of an upward revision to February. The outturn marks two consecutive months of increases for the first time since early 2023.

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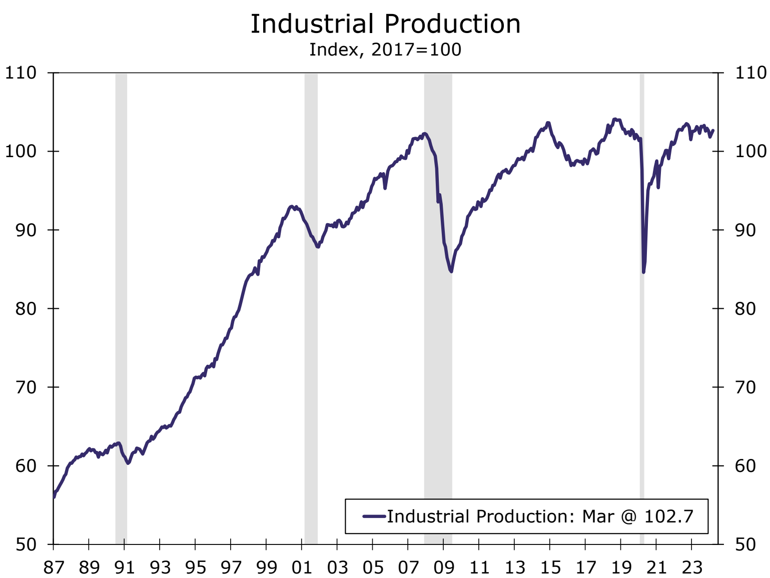


Source: Federal Reserve Board and Wells Fargo Economics

Two Isn't a Coincidence

After spending the better part of the past year in the doldrums, the factory sector is showing signs of life. Industrial production rose 0.4% in March, coming on the heels of an upward revision to February. The outturn marks a two-month gaining streak for the first time since early 2023.

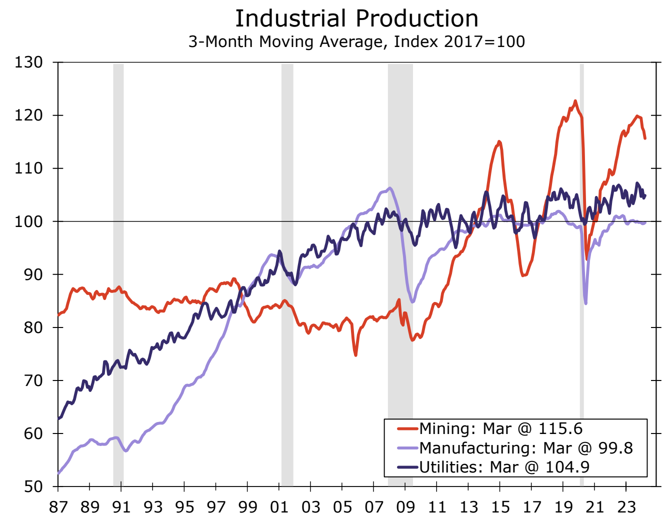
Manufacturing production, which accounts for the majority of total industrial output, increased 0.5% in March and saw a decent upward revision to the prior month's data. Production of motor vehicles increased nearly 5% over the month in a sign that the auto industry is continuing to gradually recover from the pandemic and strike-related disruptions. Production of rail & ship (3.0%) and aerospace (0.6%) equipment also saw decent gains. The overall strength in transportation equipment indicates some awakening in capital expenditures; we suspect real business equipment spending expanded at a 2% annualized rate in Q1. In the nondurable goods space, petroleum & coal refineries saw production ramp up 4.8% during the month.

The much smaller utilities component increased 2.0% after sharply contracting in February. The weather was warmer than usual in March across the country, so it is not surprising to see electric and natural gas utility production pick up over the month. Meantime, mining production slipped 1.4%. Although oil prices have been on a tear since the beginning of the year, the rig count in the United States has been essentially flat over that timeframe.

The upturn in manufacturing production was presaged by improving purchasing manager sentiment and firming durable goods orders. The ISM manufacturing index broke back into expansionary territory in March for the first time in 16 months as the new orders and current production sub-components improved. Average hours worked in the manufacturing sector have also increased over the past two months, which suggests firms are gearing up. Capacity utilization rose 0.2 percentage points to 78.4% in March.

Even as the sector has shown signs of stabilization so far this year, we still believe we're some time away from a sustained recovery in manufacturing activity. The timing and degree of Fed easing will be later and smaller than previously expected, which will delay the rebound in cap-ex spending generally.

One notable bright spot, however, will likely continue to come from high-tech production, which rose 0.3% in March and is up 14% on a year-over-year basis. As we detailed in a recent report, high-tech production is rapidly accelerating even as other non-energy manufacturing remains fairly consistent with 2017 levels. This is at least in part due to the recent boom in manufacturing construction activity and push to onshore key products.



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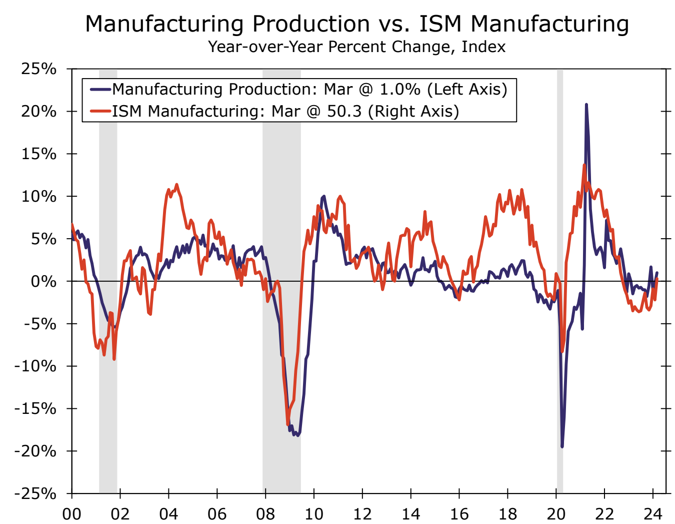

Source: Federal Reserve Board, Institute for Supply Management and Wells Fargo Economics

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