

Economic Indicator — July 17, 2024

# Hard Flex for Industrial Production, But Headwinds Remain

## Summary

Manufacturing is still struggling under the weight of higher rates and caution around inventories may limit future gains, but industrial output just posted the biggest back-to-back gains since 2021, enough to hit a fresh cycle high and within striking distance of the all-time high reached in 2018.

Economist(s)

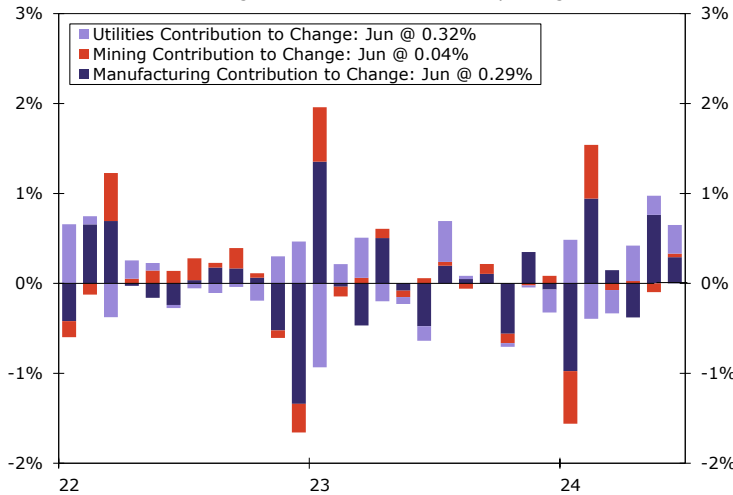
**Tim Quinlan**

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

**Shannon Seery Grein**

Economist | Wells Fargo Economics  
 shannon.grein@wellsfargo.com | 704-410-0369

**Industrial Production by Industry Group**  
 Percentage Point Contribution to Monthly Change



Source: Federal Reserve Board and Wells Fargo Economics

### Fresh Cycle High

Industrial production rose 0.6% in June, handily exceeding expectations and marking the first back-to-back monthly gain in output since 2021. With the first half of the year now on the books, we can say that industrial production has been up three months and flat or down three months but is still up 1.3% on a year-to-date basis.

Factoring in today's reported increase in June, the level of industrial production has finally surpassed its prior peak for this cycle reached in September 2022. This milestone is somewhat less impressive in light of the fact that industrial production as a whole still has not fully returned to its peak in the prior cycle reached in September 2018, but with another month like this one, it will.

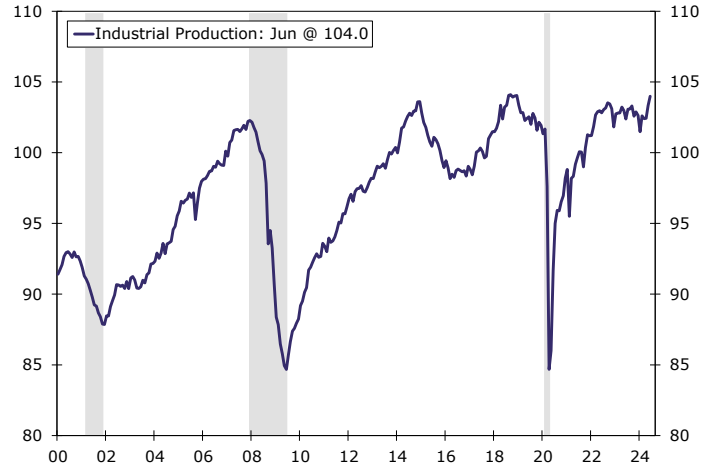
Higher rates have clearly had a bigger impact on manufacturing than on the consumer sector. We noted this week how retail sales overtook its pre-pandemic peak in June 2020; meanwhile, four years on manufacturing is still getting back up. Just the same, today's report is a welcome sign of life for industrial output which has been struggling under the weight of supply chain issues, diminished demand for consumer durable goods and an uncertain trade policy outlook.

### The Inventory Case for Finished Goods Production

In terms of the various drivers in June, the two largest categories, chemicals and food & beverage, both added modestly to this month's gains. The next two largest categories, fabricated metals and machinery, both declined after having risen the prior month.

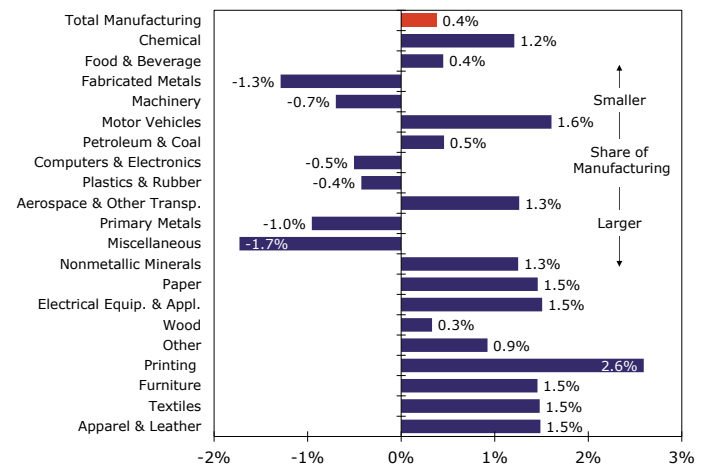
The remaining industries for the most part showed broadly based, if only modest gains. This is consistent with our view around inventories. We don't believe manufacturers are overstocked today. But the lessons of the supply chain crisis remain fresh. Manufacturing inventories are elevated relative to sales, but most of the restocking that has already happened has been in materials and supplies. What we are seeing today is how even a modest pickup in demand can translate to increased production of finished goods.

Industrial Production  
Output Index, 2017=100



Source: Federal Reserve Board and Wells Fargo Economics

Manufacturing Production: Jun-24

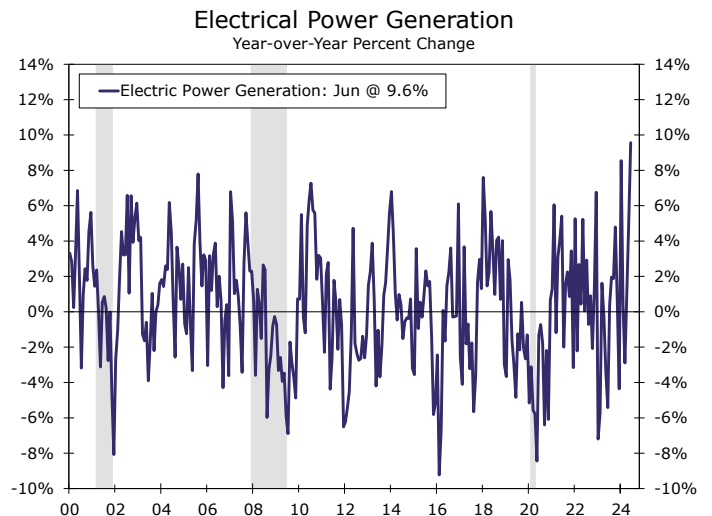


Source: The Federal Reserve Board and Wells Fargo Economics

### Have You Looked at Your June Power Bill?

By major industry groups, manufacturing was up 0.4%, mining was up 0.3% and utilities managed to notch a gain of 2.8%. If every summer we test records for hottest on record, how long can we plausibly call the resulting demand abnormally high? It is always hot in June, but suffice to say it was a scorcher this year. The average temperature during June in the contiguous United States was 3.4°F above average, making it the second warmest in 130 years of data. The resulting demand for power stoked demand for an increase in utilities output to its second highest output level on record. Electrical power generation is up nearly 10% year-over-year through June. Though the measure is notoriously volatile, this is the highest it's been in over 25 years. This is setting up a high base for monthly and yearly comparisons of growth going forward.

This marks the third consecutive monthly surge in utility output. No one is saying it will be cool weather in July, but at some point there will be a comeuppance when utility output reverts to the mean.



Source: The Federal Reserve Board and Wells Fargo Economics

**Subscription Information**

To subscribe please visit: [www.wellsfargo.com/economicsemail](http://www.wellsfargo.com/economicsemail)

Via The Bloomberg Professional Services at WFRE

**Economics Group**

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@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
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

## Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

### Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE