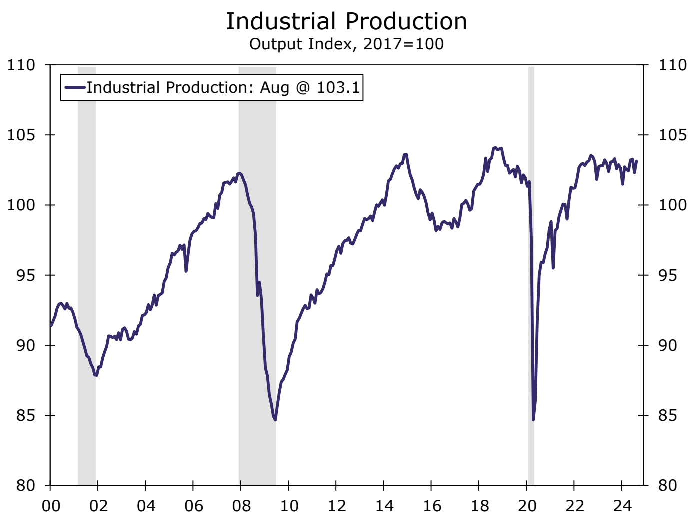
Economics

Economic Indicator — September 17, 2024

Post-Storm Rebound Leaves Industrial Production Uninspiring in August

Summary

Mining and manufacturing activity bounced back in August after hurricane-related disruption stymied output in July. In short: a return to normal, which in today's manufacturing climate is not great.



Source: Federal Reserve Board and Wells Fargo Economics

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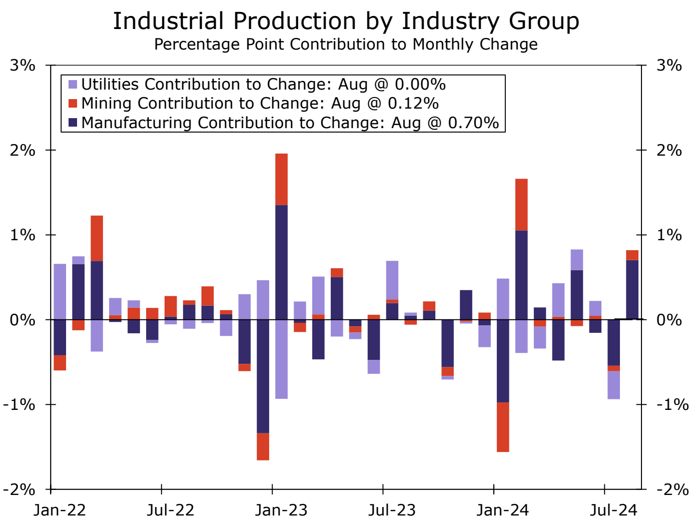
Hurricane Party

Output returned to normal after the Hurricane Beryl-related disruption in July, if only normal were something more encouraging. The 0.8% increase in industrial production in August represents a partial reversal of the 0.9% decline in July (chart). If pressed for a positive take, we could highlight how manufacturing output rose 0.9% which more than offset the 0.7% dip in July. Factory output was boosted by a 9.8% surge in motor vehicle & parts production. At the risk of sounding repetitive, this too was a bounce-back after auto-production fell 8.9% in July.

The notoriously volatile utilities component was conspicuously quiet in August with an unchanged reading making no impact on the headline. Mining output shot up 0.8% in August (chart).

The manufacturing sector continues to show signs that monetary policy is restrictive, even if the broader economy has been resilient in the face of tighter policy. Manufacturing production is up just 0.2% over the past year, straddling the zero line since the start of 2023, consistent with the ISM manufacturing index, a bellwether of sector growth (chart).

There have been pockets of strength in over the past year including computer and electrical equipment. But with it both more expensive and challenging to borrow today it's no wonder why broad manufacturing activity has stalled. As the Fed eases policy, not just at tomorrow's meeting, but in the ensuing quarters, we expect easier monetary conditions to breathe some new life into manufacturing. There's also likely a growing need for capital as businesses simply need to replace worn-down equipment now that we're more than three years away from the post-pandemic boom.



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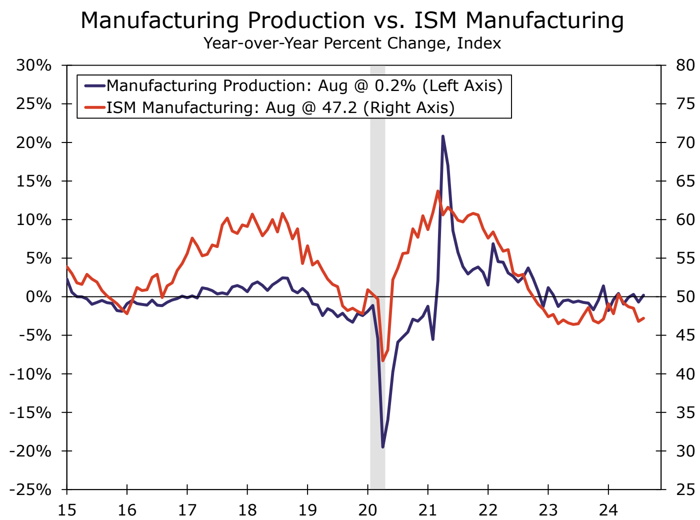

Source: Federal Reserve Board, Institute for Supply Management and Wells Fargo Economics

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