

Economic Indicator — June 18, 2024

Curb Your Expectations: Production Bounce May Not Last

Summary

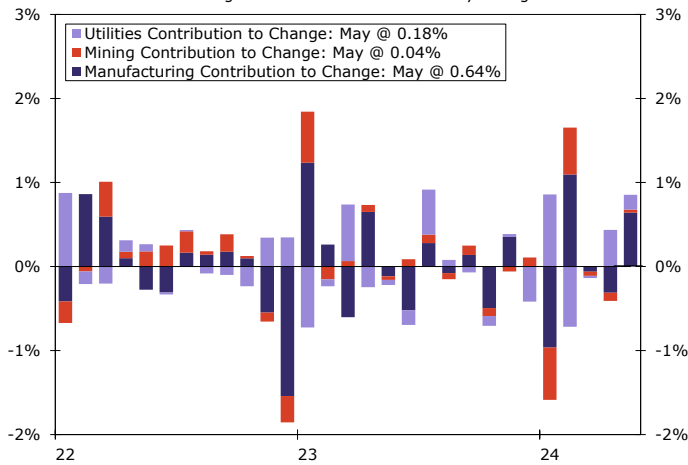
Industrial production popped in May amid a bounce in manufacturing. This is a favorable development for the industrial sector, but it's tough to see it as the beginning of sustained strength, as the sector is strapped with headwinds that will limit the pace of recovery.

Economist(s)

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

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

Industrial Production by Industry Group
Percentage Point Contribution to Monthly Change



Source: Federal Reserve Board and Wells Fargo Economics

Industrial Sector Still Finding Its Footing

The U.S. industrial sector has been in limbo for years, but there have been some signs of life recently. The latest comes from May industrial production, which jumped by the most in ten months, rising 0.9% during the month. Strength was fairly broad-based with each major sector expanding, but the notable standout was in the 0.9% gain in manufacturing production ([chart](#)), which accounts for the bulk of industrial activity.

Last month's increase was the second fastest in thirteen months and was enough to lift manufacturing production to the highest level in a year ([chart](#)). That's no small feat for an index that has done little more than tread water in recent years. Manufacturing strength cannot be traced to any particular industry either, as most major industries were also higher during the month, with only a handful of relatively small industries registering declines ([chart](#)).

Beyond manufacturing, utilities output also jumped 1.6% in May, which was particularly impressive following a 4.1% gain in April. Warmer-than-usual weather across the country the past few months likely continues to stimulate utility demand and production. Mining output also eked out a modest 0.3% gain last month, helping support output.

The largest gain in production by market group came from consumer goods, which rose 1.3%. Considering the moderation in May [retail sales](#), this outturn suggests some potential build in inventories last month, particularly in the area of appliances and furniture, where production rose the most last month, but sales declined.

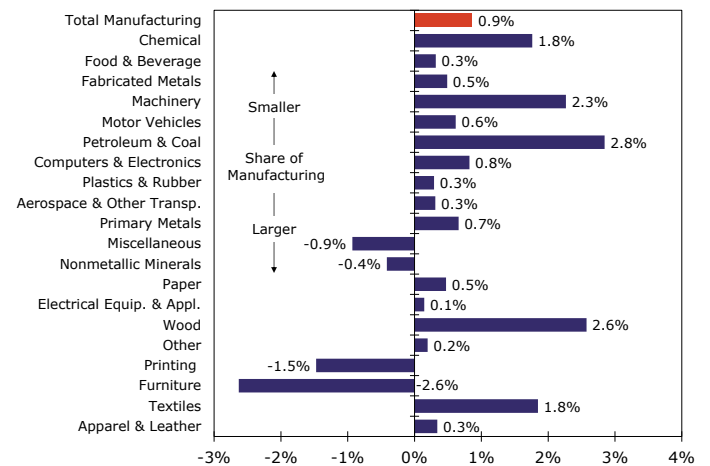
While there have been some recent signs of life in the manufacturing sector, we continue to expect only a gradual recovery to unfold. Credit conditions remain restrictive, with borrowing costs elevated and the net share of banks tightening their standards at a level historically consistent with recession. We also continue to see end-demand somewhat constrained as household goods spending continues to run at only a moderate pace. Heightened uncertainty around Fed policy, the U.S. Presidential election and macro trajectory generally are also curbing capex intentions of many businesses. But even as we believe the headwinds continue to outweigh the tailwinds in the near-term, there are a couple of reasons for optimism.

Inventory dynamics are always a challenge to assess in real time, and despite the potential for some inventory building in May, we don't believe manufacturers are overstocked today. Manufacturing inventories are elevated relative to sales, but most of the restocking has been in materials and supplies, or inputs, meaning a pickup in demand should translate to increased production of finished goods. The medium-to-longer term tailwind of the recent construction boom of manufacturing facilities should also offer support to production ahead, as should infrastructure spending as it gains more considerable momentum in coming years.



Source: Federal Reserve Board and Wells Fargo Economics

Manufacturing Production: May-24



Source: The Federal Reserve Board and Wells Fargo Economics

Subscription Information

To subscribe please visit: 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
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@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