Economics

Economic Indicator — January 17, 2024

Industrial Production Edged Higher In December, but Down for Q4

Summary

Industrial production notched a modest gain in December but contracted during the fourth quarter. Manufacturing rose slightly. Falling capacity utilization points to a lack of both pricing pressure and things to do for manufacturing workers.

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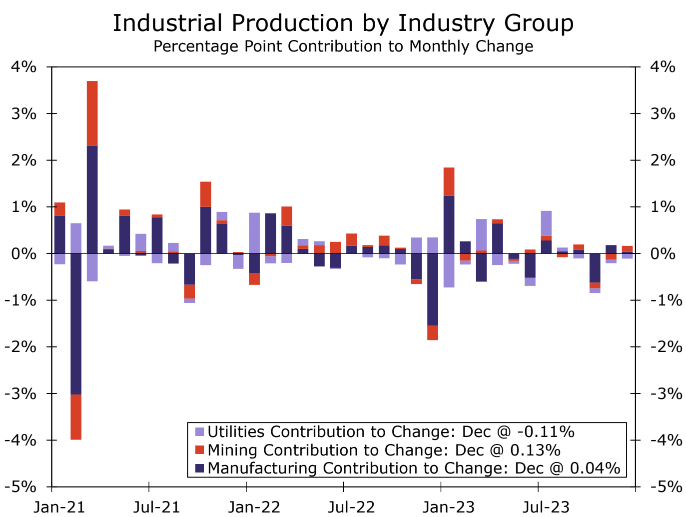


Source: Federal Reserve Board and Wells Fargo Economics

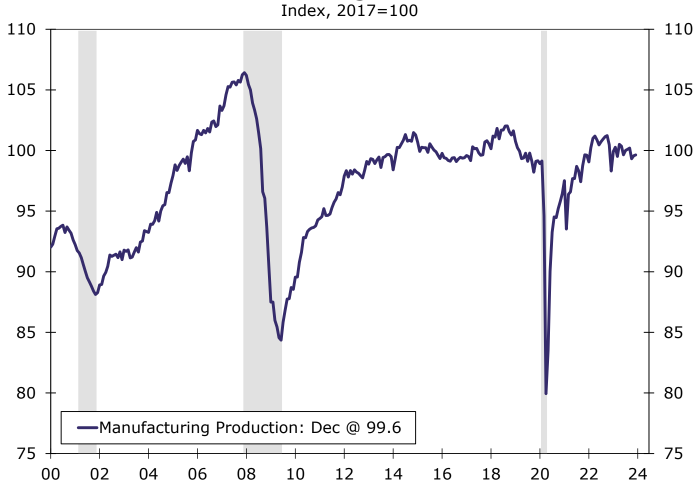
One Step Up and Two Steps Back

A modest uptick in industrial production for December finishes the year on a somewhat brighter note, but after factoring in a miserable report in October, output contracted at an annualized rate of 3.1% for the fourth quarter as a whole (chart).

Factory output was up 0.1% in December, but the gain comes at the cost of a downward revision to November which puts the index level not meaningfully changed from where it had been last month (chart). This is more or less exactly what could be expected with the ISM manufacturing index down for 14 straight months and the production component of that index barely in expansion at 50.3 in December.

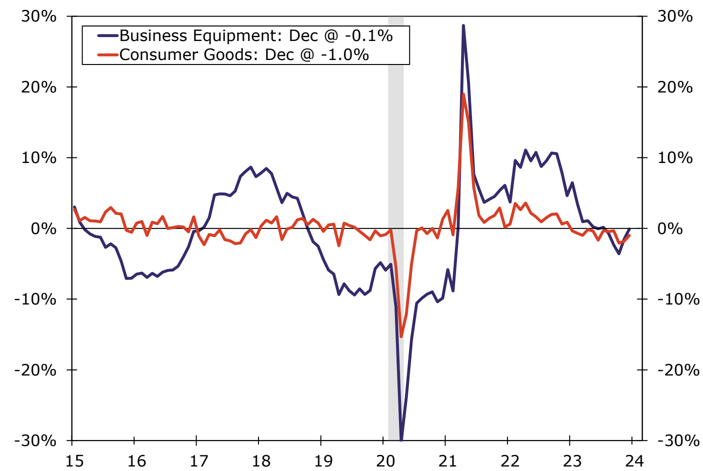
In terms of the factors influencing manufacturing production, it was something of a reversal of recent trends. The past year could be broadly characterized as one in which consumer durable production has been under pressure amid a preference for service-related spending on the part of the consumer (chart). Meanwhile, manufacturing tied in any way to the soaring pace of construction associated with the CHIPS Act has generally been on the upswing. The opposite was evident in today's report with production of consumer goods up 0.2%, largely from increased production of durable consumer goods. Note that motor vehicle production was up 1.6% after the post-strike surge of 7.4% in November. The indexes for business equipment, construction supplies, and business supplies all registered slight declines in December. We do not view either of these developments as the beginning of a new trend.

Manufacturing Production
Index, 2017=100



Source: Federal Reserve Board and Wells Fargo Economics

Industrial Production: Consumer Gds. & Bus. Equip.
Year-over-Year Percent Change



Source: Federal Reserve Board and Wells Fargo Economics

Mining and Utilities

Utilities and mining production together may have offered a very incremental lift to overall production, but essentially they just canceled each other out in December. Utilities output was down 1.0%, slightly more than the 0.9% production increase at the nation's mines. Mining activity comprises a roughly 15% share of output, though, whereas utilities accounts for something closer to 10%. This marks the fourth consecutive monthly decline for utilities amid what was one of the warmest years on record in 2023. At some point, a reversal in this notoriously volatile series is inevitable. The cold snap across most of the contiguous United States this week increases the odds that January could be the month for that turnaround in utility production.

Capacity utilization across all industries slipped further in December, though after rounding it came in at 78.6%, similar to November. That makes for the lowest since the autumn of 2021, when capacity was still coming back online after pandemic-era shutdowns. The upside of that is there is apt to be little in the way of price pressures from the manufacturing parts of the economy. The downside is diminished demand for labor if there is growing slack.

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