

Economic Indicator — February 14, 2025

Manufacturing on the Borderline: Will January Industrial Production Last?

Summary

Colder weather helped boost industrial output at the start of the year, yet there are some signs of a slow awakening in manufacturing production. Higher borrowing costs and a prioritization of software over hardware have sapped broad manufacturing, yet tariffs are the biggest risk to recovery this year.

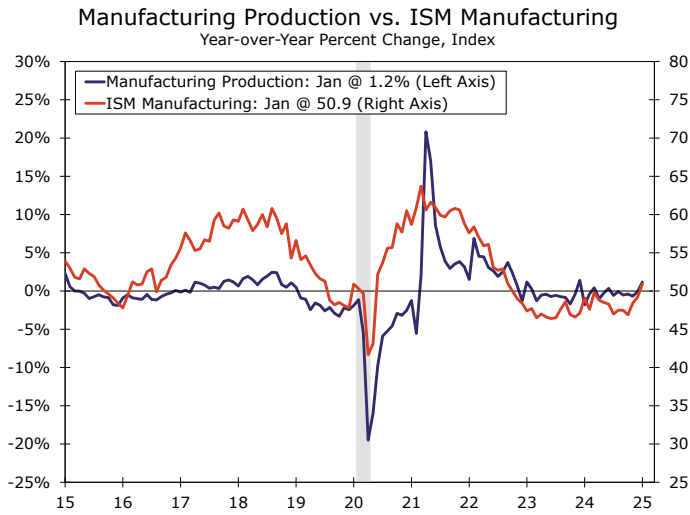
Economist(s)

Shannon 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



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

Wake Me Up When the Tariffs End

There's some sign of life in the industrial sector. Overall production rose 0.5% in January, which comes off an upwardly-revised 1% gain in December. Most of the increase came from the utilities sector last month, where output leaped 7.2% (chart). Colder-weather and unusual winter storms across the Southern portion of the country likely were responsible for the strength here.

Yet, when you look beyond utilities, the data were a bit more lackluster. Mining production slipped 1.2% and manufacturing pulled back 0.1%. On a year-ago basis, manufacturing picked up at the start of the year, which is somewhat consistent with the ISM manufacturing index [breaking above 50](#) in January and signaling expansion for the first time since 2022 (chart). But, the hard-manufacturing data in this release continue to paint a picture of activity only *slowly* awakening.

Most of the manufacturing weakness stemmed from auto & parts production specifically, which slipped 5.2% last month. In excluding autos, manufacturing production *rose* 0.2%. Elsewhere, a continued strike-related pick up in aircraft manufacturing helped offset weakness, with aerospace production posting its second 6%+ monthly gain. The two largest U.S. manufacturing industries, chemicals and food & beverages, were flat and modestly down last month.

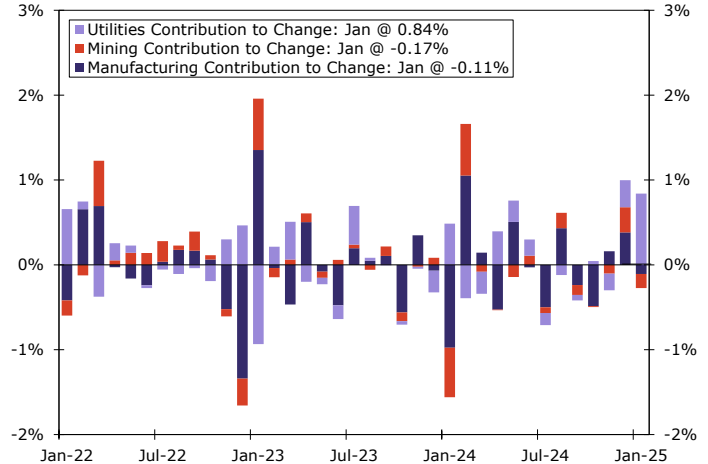
The manufacturing sector has been struggling to find its legs. Higher financing costs have eroded demand for large capex among businesses, while a prioritization of software over hardware this cycle has left traditional manufacturers with less demand. Consider the categories associated with automation and software have actually done quite well and bucked the stalling manufacturing trend. Computer & electronic products' production, for example, picked up 1.5% in January and is up 5.3% over the past year, the second highest annual gain behind chemicals. Selected high-tech industries overall are up 6.2% over the past year, compared to just a 0.7% gain in non-high-tech manufacturing.

Welcome to a New Kind of Tension

There is also the added wrinkle this year of tariff policy. The Trump Administration has levied additional tariffs on China and all steel & aluminum imports in recent weeks, has postponed universal tariffs on Mexico and Canada and is investigating a reciprocal tariff system. The threat or possibility of tariffs alone is enough to influence behavior, and we hear almost everything across the spectrum in terms of how manufacturers are preparing for tariffs, from not expecting (and therefore not planning) they come to pass to considering an on-shoring of operations.

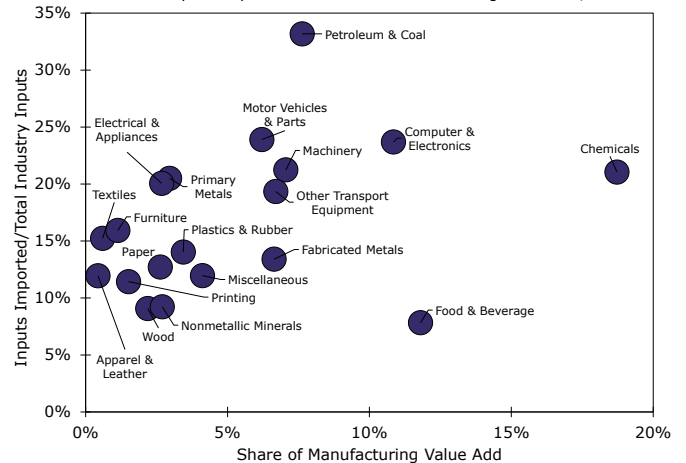
Ultimately an industry's direct exposure depends on how much it imports. The nearby [chart](#), shows the share of each major manufacturing industry's inputs that are imported versus how much of the U.S. manufacturing base the industry makes up. A hit to chemical inputs would be the most disruptive, given the industry imports over 20% of its inputs and represents the largest portion of U.S. manufacturing. But petroleum, computer and auto manufacturers also have large exposure. It's the auto industry that stands out as perhaps the most exposed from the recent steel & aluminum tariffs and potential Mexico/Canada tariffs. We ultimately expect tariff concerns to result in a volatile but elusive manufacturing recovery this year.

Industrial Production by Industry Group
Percentage Point Contribution to Monthly Change



Source: Federal Reserve Board and Wells Fargo Economics

U.S. Manufacturing Industry Tariff Exposure
Share of Inputs Imported vs. Share of Manufacturing Value Add; 2023



Source: U.S. Department of Commerce 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
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@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
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@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. 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. All reports published by the Economics Group are disseminated and available to all clients simultaneously through electronic publication to our public website. Clients may also receive our reports via third party vendors. We are not responsible for the redistribution of our reports by third-party aggregators. Any external website links included in this report are not maintained, controlled or operated by WFBNA. WFBNA does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of WFBNA.

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.

You are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for your own use and for no other purpose. Without the prior written consent of WFBNA, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. "AI Technologies" means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment. In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by WFBNA, its affiliates or one or more third parties (collectively, "Protected Content"). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other than fair use requires permission from WFBNA or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. All rights not expressly granted herein are reserved by WFBNA or the third-party providers from whom WFBNA has obtained the applicable information. © 2025 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