Economics

Economic Indicator — April 16, 2025

Manufacturing Production Holds Up for Now

Summary

Manufacturing output increased 0.3% in March, a bit more than expected. We know that industrial supply imports surged in recent months, giving factories the inputs they need. If tariffs get in the way of that pipeline, output could slow. A sharp drop in utility output could be an early signal of that.

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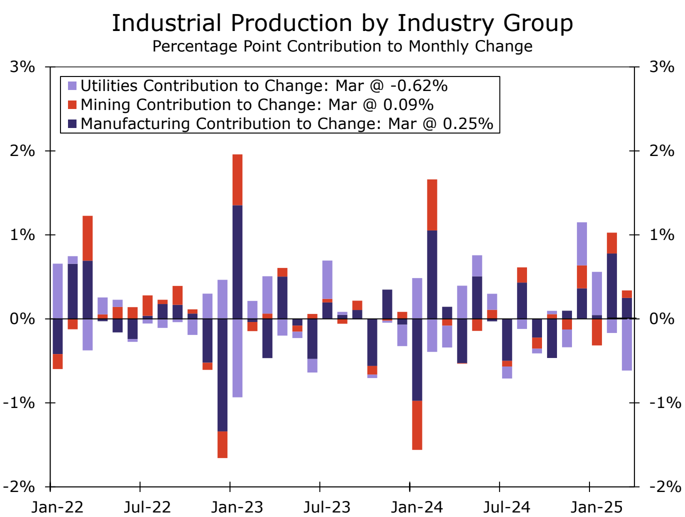


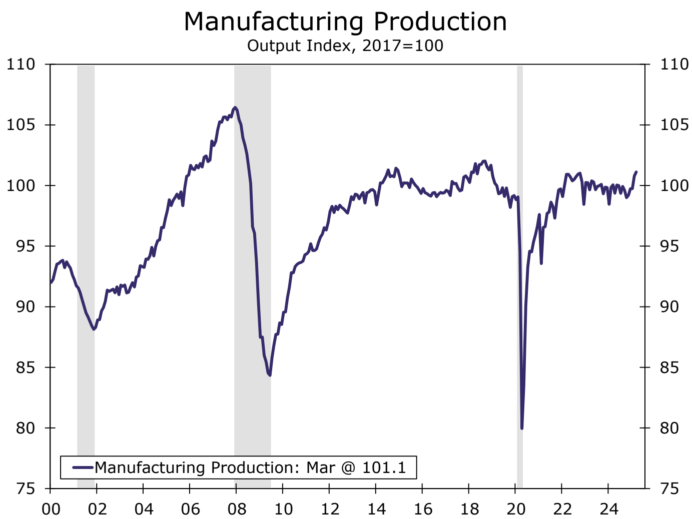
Source: Federal Reserve Board and Wells Fargo Economics

Short Lived Signs of Life in Manufacturing

Trade policy have been the main topic of discussion in general this year, but this is particularly true for industrial and manufacturing clients we speak with trying to navigate the fluid tariff environment. While most tariffs did not go into effect until April, steel & aluminum tariffs hit in March and uncertainty around tariff proposals has influenced behavior for months. A surge in industrial imports and anecdotal comments from our client conversations suggests U.S. manufacturers have been stocking up on all they can ahead of tariffs.

While there's some evidence of tariff front-loading in the March industrial production release, it's somewhat muted and perhaps more importantly likely short-lived. Total output slipped 0.3%, with most of the drop attributable to a 5.8% plunge in utilities production (chart). Mining output advanced 0.6% and the biggest sector, manufacturing, rose 0.3%.

Manufacturing activity picked up across industries with computer & electronic products, aerospace, apparel and plastics being notable bright spots. The largest industries, chemicals and food & beverage manufacturing, rose but saw more muted gains. The sizable declines were traded to wood products, petroleum and textile production. Overall, the March gain drove the index to its highest post-pandemic reading, a notable breakout from the dull-drum trend of the past five years (chart). The unfortunate circumstance is this will likely be short-lived. Increased uncertainty around tariff policy has led many businesses to pause major cap-ex, which is set to bite domestic manufacturing.



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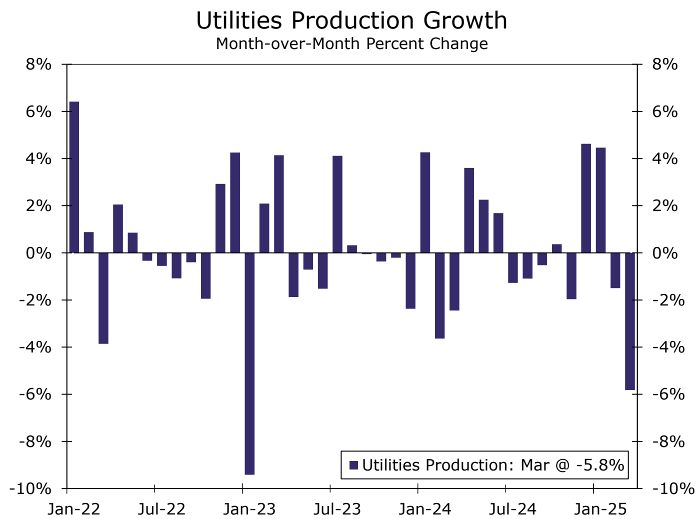

Source: Federal Reserve Board and Wells Fargo Economics

Utilities output rained on the parade in March. Even by the big swings of this notoriously volatile category, the decline in March was an outlier (chart). The 5.8% drop in utility production has been exceeded only three times in the past 25 years. Typically, these big moves are aligned with a weather disruption. Aside from it being a particularly active month for tornadoes, we're not aware of a weather dynamic to blame here. Back-to-back gains in December and January set the overall output level quite high, and today's index level of 105.5 is above the five-year average of 104.5. For now, we will merely note this diminished utility output. But if this measure should continue its descent, it could offer an early warning that underlying demand for juice is drying up, which would be a worrying signal for manufacturing more broadly and a potential indicator of tariff-induced supply chain disruption.

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