

Economic Indicator — September 15, 2023

Manufacturing Activity Ticked Up in August, but Unlikely to Be Sustained

Summary

Industrial production surprised to the upside in August, with a pop in mining output accounting for half of the 0.4% gain in overall production. Manufacturing activity was stronger than the 0.1% monthly gain would suggest, as autos held back activity. Still, we are cautious to expect this will be sustained as unfavorable conditions will limit a recovery in manufacturing for some time.

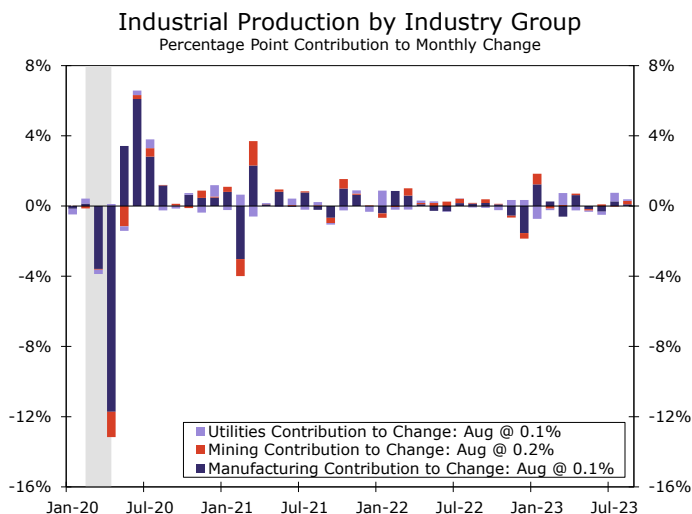
Economist(s)

Tim Quinlan

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

Shannon Seery

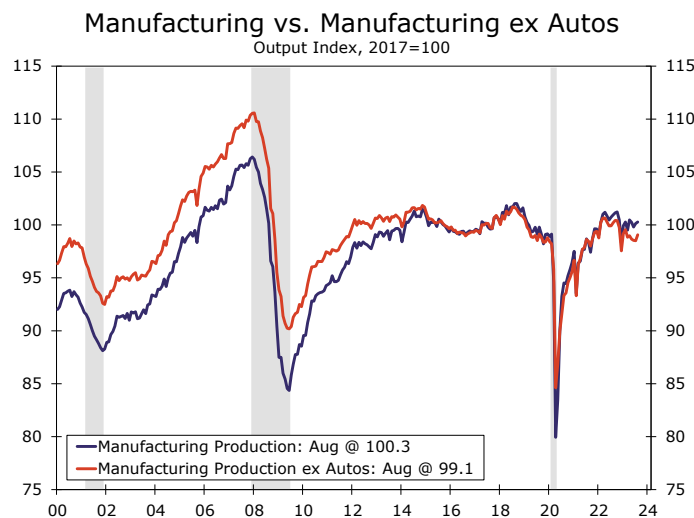
Economist | Wells Fargo Economics
Shannon.Seery@wellsfargo.com | 704-410-0369



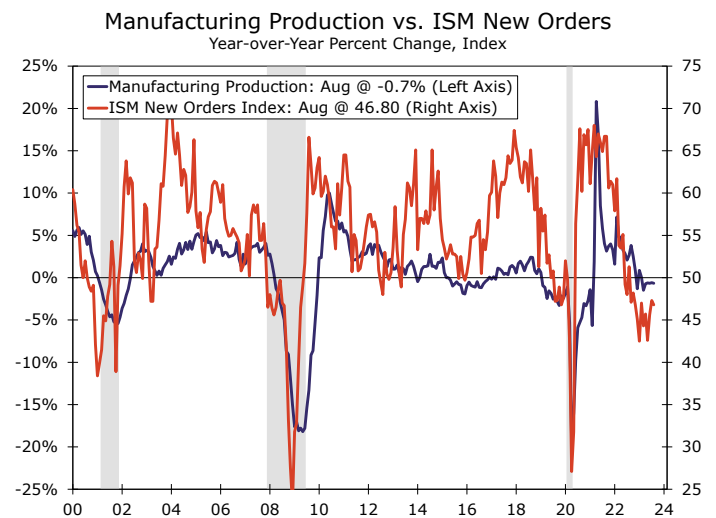
Upside Surprise Traced to Mining, but Manufacturing Stronger

While most data continue to point to a U.S. industrial sector that is stalling or in contraction, the August industrial production data surprised to the upside, with total output rising 0.4%. That, however, comes after downward revisions to the prior month (now up 0.7% from a previously reported 1.0% rise) and is somewhat explained by a pop in the volatile mining industry. Mining output rose 1.4% last month (due to a +3% gain in oil & gas extraction specifically), or by the fastest in seven months and was responsible for half of the overall gain in output ([chart](#)). But gains were fairly broad based in August. Utilities also registered a decent gain made more impressive on top of a blow-out July, rising 0.9%. Manufacturing, which is by far the biggest component of industrial production representing nearly three-quarters of output, was up a modest 0.1%.

But manufacturing activity was held back by autos output specifically. Motor vehicles & parts production slid 5% in August, nearly reversing the jump a month prior, and when excluding autos from the manufacturing data, production rose 0.6% or by the highest in seven months. Manufacturing production thus saw somewhat of a reprieve in August with the largest gains coming from aerospace & miscellaneous transportation equipment (+3.3%), machinery (+2.0%), primary metals (+1.6%), miscellaneous (+1.5%) and printing & support (+1.3%) output. While production remains lower than peaks experienced last year, the gain in activity is welcome news to producers ([chart](#)).



Source: Federal Reserve Board and Wells Fargo Economics



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

Conditions remain broadly unfavorable for new capital investment. While higher borrowing costs and tighter lending standards have crimped access to credit, restocking efforts over the course of 2022 and elevated economic uncertainty have left producers cautious not to overproduce or take on too much inventory. Inventory-to-sales ratios are broadly back to pre-pandemic levels for the manufacturing and retail space, and some overstocking at the wholesale level likely impedes the need to produce. The ISM manufacturing new orders index has signaled contraction for 12-straight months and suggests a persistently low level of demand ([chart](#)).

The U.S. industrial sector remains under pressure, and while the reprieve in manufacturing activity in August is good news to producers, we don't expect this is a start of renewed strength for the space. We anticipate capital expenditures will remain under pressure for as long as the Fed keeps policy restrictive as conditions remain a challenge for new investment, and at the same time consumers continue to transition away from big-ticket durable purchases.

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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 Seery	Economist	704-410-0369	Shannon.Seery@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	704-410-1437	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

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