Economics

WELLS FARGO

Economic Indicator — August 15, 2024

Industrial Production Falls Despite Downward Revisions

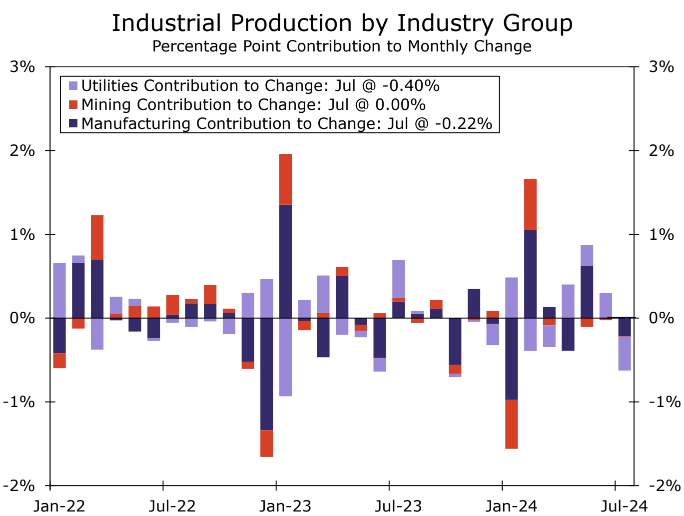
Summary

Today brought a batch of manufacturing data that was rather grim. Regional manufacturing surveys from the New York and Philadelphia Fed were both in contraction territory in August and industrial production fell in July with downward revisions to prior data.

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



Source: Federal Reserve Board and Wells Fargo Economics

Tough Timing for the Utilities Comeuppance

We'd say, "Let's get the bad part out of the way," except that would not leave us with much to discuss. The July industrial production report was a disaster, but not an unmitigated one at least, more on that in a second. Manufacturing production was down 0.3%, mining output was flat amid refinery shutdowns due to Hurricane Beryl and utilities production fell 3.7%. In our June industrial production note, we said "at some point there will be a comeuppance when utility output reverts to the mean." This is it.

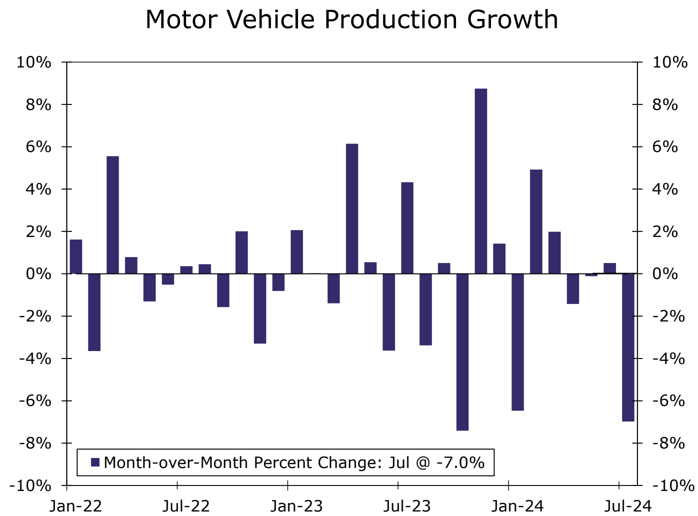
To the extent there is a mitigating factor for manufacturing it is that the weakness is entirely in the manufacture of motor vehicles and parts. That category cratered 7.8% in July alone. Over the past year, motor vehicle production is off 9.4%. The trend normalization underway in the sector has included a few dreadful months like this over the past year. As supply chains heal and orders stabilize, we'd expect to see the ever-present volatility in this sector abate somewhat.

Elsewhere, manufacturing categories were all positive. Machinery output rose 1.4% after a sharp decline the prior month and computer & electronics output rose 1.5%.

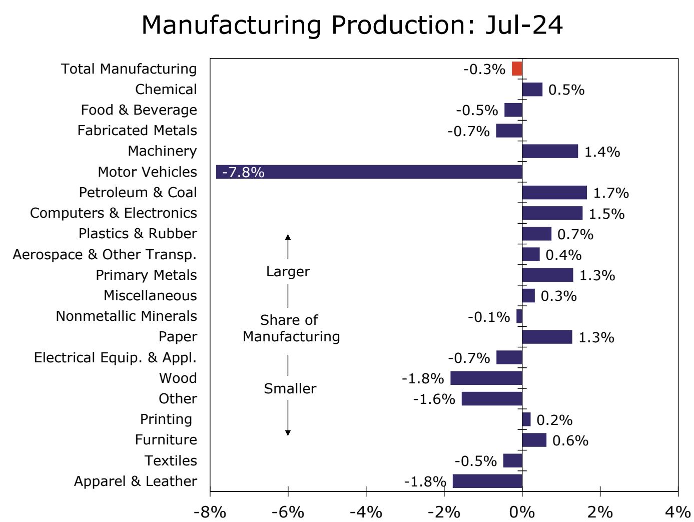
While manufacturing activity continues to do little more than tread water, the overall business spending environment has held up reasonably well as firms have prioritized the software over equipment this cycle. This has allowed overall capex spending to move ahead even as manufacturing production flags. This is evident in some major manufacturing categories tied to the space, such as computer & electronic products. While overall manufacturing production is up just 0.1% over the past year, computer & electronics are up nearly 4%, and when adding semiconductors and communications equipment these high-tech categories annual growth is north of 7%.

The 'deferment' mindset that has been used to describe today's consumers looks more evident in manufacturing investment. Faced with uncertainty around the timing *and* degree of Fed easing and the results of the U.S. presidential election, there is little incentive for firms to take on major projects today with the promise of more clarity tomorrow. This overall sector slowdown was evident in measures of capacity. Manufacturing capacity pulled back last month, with the largest decline coming from the auto space. This is consistent with the overall decline in manufacturing weekly hours worked in July, which remain near the lower-end of the post-pandemic range.

Manufacturing activity continues to flash recessionary signals, but other data, including July retail sales, suggest some portions of the economy can continue to chug along even as manufacturers face a more precarious environment. To the extent that the struggles in the manufacturing sector in particular and the labor market more broadly stem from policy that is too restrictive, there is still scope for the Fed to move quickly to relieve that constraint.



Source: Federal Reserve Board and Wells Fargo Economics



Source: 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
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
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures