

Economic Indicator — June 15, 2021

Industrial Production Rises in May From a Lower April Base

Summary

Short-handed and waiting for deliveries, manufacturing is not growing as fast as it could be. Still, industrial production rose 0.8% in May which exceeded expectations, though a downward revision to prior data saps the joy from the beat. Output in high-tech industries continues to lead the way.

Economist(s)

Tim Quinlan

Senior Economist | Wells Fargo Securities, LLC
tim.quinlan@wellsfargo.com | 704-410-3283

Sarah House

Senior Economist | Wells Fargo Securities, LLC
sarah.house@wellsfargo.com | 704-410-3282

Supply Chains Still Holding up Output

Overall industrial production notched a 0.8% gain in May, which was slightly better than expectations. However, the fact that April's initially reported gain of 0.7% was revised lower to a pickup of just 0.1% spoils the celebration.

The slightly better outturn for May, as well as most of the downward revision, is attributable to manufacturing production which comprises about three-quarters of all industrial output. Manufacturing output rose 0.9% in May after a revision to April's output figure changed a 0.4% gain into a 0.1% decline.

Manufacturing continues to contend with supply chain constraints that have left loading docks empty and caused some automakers to temporarily halt production altogether even as other automakers are ramping back up. That does not fully explain why motor vehicle and parts production dropped 5.7% in April only to fully bounce back and then some with a 6.7% increase in May. Perhaps the more compelling observation within the motor vehicle space is that despite the possibility that some demand was pulled forward over the past year, demand still exceeds supply. Once supply chains normalize, the production outlook remains positive. Excluding motor vehicles and parts, manufacturing output increased 0.5%.

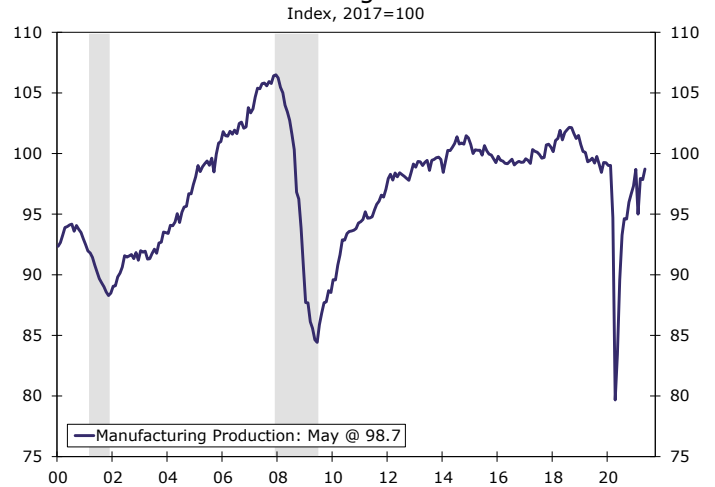
If I Could Just Get Some Help

Output among high-tech industries, which include computers, communication equipment, semiconductors and related electronics rose another 1.5% in May. Whereas total manufacturing production is still 0.3% below its pre-pandemic level, output for this group is up more than 16% since February 2020 as the pandemic accelerated the adoption of technology. The need for high-tech goods shows no sign of slowing down even as social distancing falls by the wayside. High tech-output is up at a 22.8% annualized pace the past three months as businesses struggle to find workers and have grown to rely more heavily on technology over the past 15 months.

Overall capacity utilization rose to 75.2%, but we suspect it could be much higher were it not for a number of challenges. If factories had all the input components they needed and did not have problems finding skilled labor to staff the floor, many factories would be humming along at full tilt.

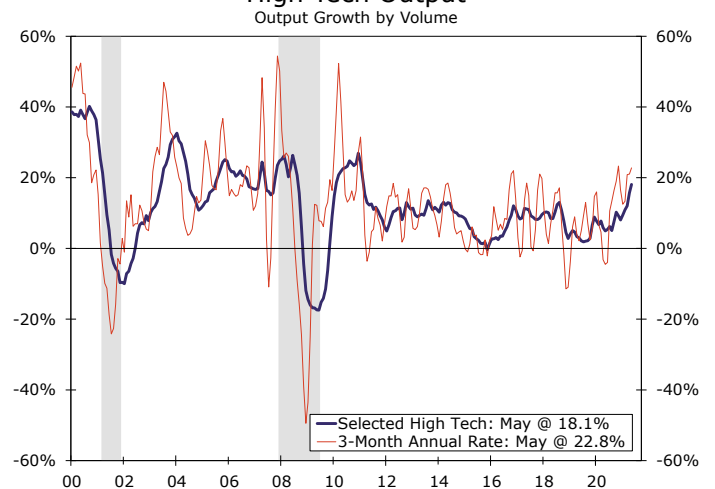
In the May jobs report we learned that manufacturers added 23K workers to payrolls, but after shedding 32K factory jobs the prior month, there are fewer people working in manufacturing now than there were in March. The ISM index and many of the regional Fed surveys also report availability of labor as a key challenge.

Manufacturing Production



Source: Federal Reserve Board and Wells Fargo Securities

High Tech Output



Source: Federal Reserve Board and Wells Fargo Securities

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@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
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. 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. Wells Fargo Bank, N.A. 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 Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

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. 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 Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or 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 the Directive 2014/65/EU ("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