



Economics Group

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Industrial Production Still Struggling

Industrial production (IP) edged down 0.1% in March. While the industrial sector continues to look soft, it is not falling apart.

Glimpses of Stabilization in Manufacturing

The U.S. industrial sector continues to struggle. Total production ticked down 0.1% in March, missing expectations that production would at least hold steady amid tentative signs that the global growth environment is stabilizing after slowing this past year.

Unlike recent months, utilities output was not a major influence on production. After an unusually cold February, temperatures were near average in March. Utilities were up just 0.2% last month.

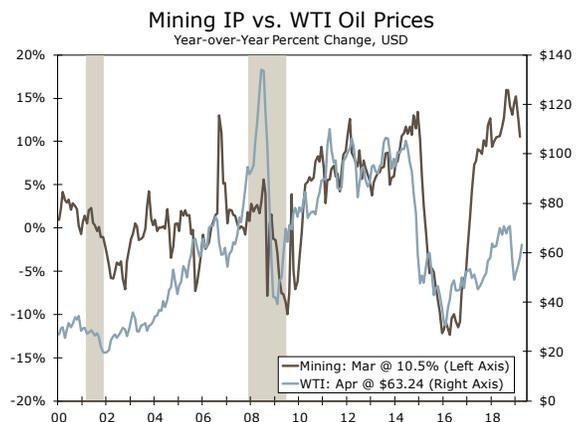
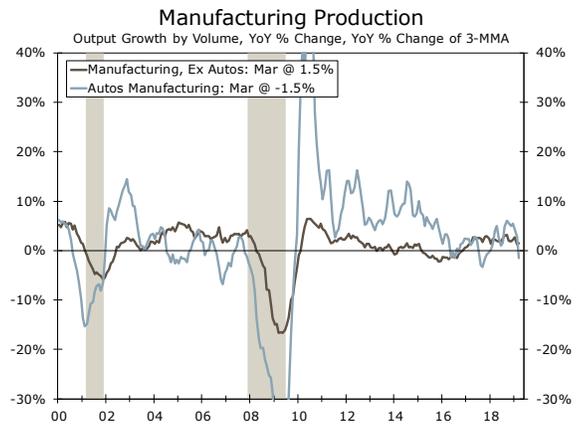
Notably, manufacturing activity still looks to have been soft in recent months. Output in this sector, which accounts for about three-quarters of all industrial production, was unchanged in March. That marks an improvement from the prior two months when activity contracted, but suggests that the weakening in global growth since late last year and policy uncertainty on issues like trade continue to weigh on output. Through the first three months of the year, manufacturing output fell at a 3.5% annualized pace, the worst performance since April 2016 when the industrial sector was similarly bogged down by a slowdown in global growth.

The motor vehicles industry has been a particular soft spot. Production fell 2.5% in March and is down 4.5% over the past year. With U.S. auto sales expected to slip below a 17.0 million annualized rate in the second half of the year, a meaningful rebound looks unlikely. Ex-motor vehicles and parts, manufacturing production edged up 0.2%, but that followed a 0.5% drop in February.

Mining activity has also softened in recent months following the drop in oil prices in late 2018. Production fell 0.8% in March and has not increased since December. The drop was almost entirely concentrated in the extraction of oil and gas (-0.7%) and coal (-7.1%), however; the more forward-looking drilling component rose 0.3%. We would expect mining to make modest positive contributions to IP again in the coming months with oil prices rebounding recently.

Hanging in There

Industrial production is one of four indicators used by the National Bureau of Economic Research, the official arbiter of U.S. recession dates. Therefore, the sharp slowdown in production the past few months raises some concerns about the outlook. While the sector continues to struggle against an unfavorable global backdrop, trade uncertainty and slower domestic growth as fiscal stimulus fades, the industrial sector accounts for only about 15% of value add, meaning it would need to slow sharply to become a broad concern for the U.S. outlook. The March report suggests that conditions remain weak, but at least for now does not suggest a marked deterioration.



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