



# Economics Group

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## Industrial Revelation: What Happens When Everything Stops

*In records that go back over a century, never before has industrial production posted a larger decline than it did in April amid widespread work stoppages at factories all over the country to stem the spread of COVID-19.*

### Hopefully This is as Bad as It Gets

With many factories and mines forced to shut their doors and stop activity amid the ongoing COVID-19 crisis, the bottom fell out under industrial production. Overall output plunged 11.2% in April, its largest monthly drop in records that date back 101 years.

U.S. manufacturing has come a long way since 1919; that was the same year Edsel Ford became president of the Ford Motor Company, taking over the position from his father Henry. In April 2020, motor vehicle & parts production plummeted 71.7%, easily the largest on record. The second largest was the 30% decline in March and before that you’ve got to go back to the recession year of 2009. Unlike 2009, though, the decline is expected to be only temporary as the country works its way through these difficult times due to COVID-19 and the shutdowns required to contain it.

Manufacturing output more broadly dropped 13.7%, also the largest decline on record. There were no silver linings here. All major industries posted declines.

Utilities fell only 0.9%, remarkably small considering the number of places that were shut down; perhaps working from home is resulting in some increased utility usage and providing an offset. Mining activity fell 6.1%.

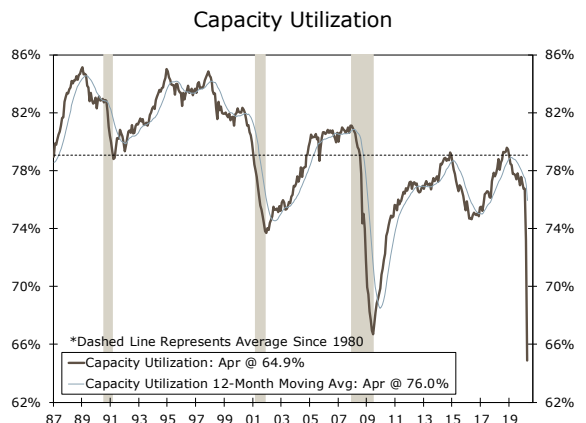
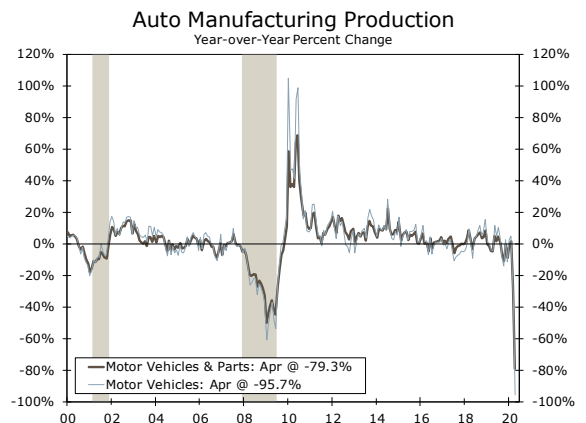
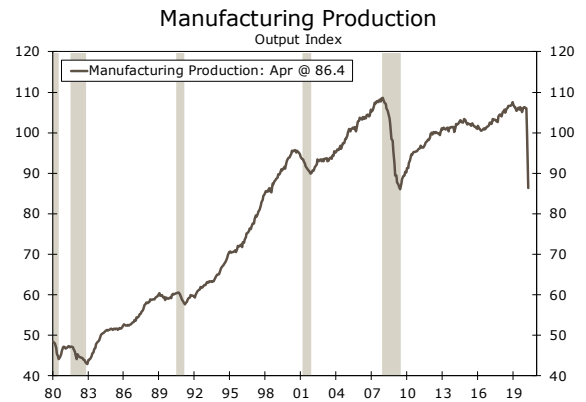
There has never been more slack in the U.S. industrial system than there was in April. Admittedly, the capacity figures don’t go back quite as long here, dating only to 1967. Capacity utilization dropped 8.3 percentage points to a jaw-dropping 64.9% in April. According to the accompanying note from the Federal Reserve, that is “a rate that is 14.9 percentage points below its long-run (1972–2019) average and 1.8 percentage points below its all-time (since 1967) low set in 2009.”

### No V-Shaped Recovery for Industrial Production

Unlike the outlook for consumer spending, which we expect to snap back into positive territory in the third quarter, the outlook for manufacturing is not terribly bright.

Even after a phased re-opening of the country is underway, the manufacturing sector will still be beset by delays from suppliers (which we are already seeing in the ISM report) as global supply chains are facing a test far worse than any previous economic slowdown or logjams created by a localized natural disaster.

The weak global economy and the low price environment for oil and other commodities suggest diminished interest in taking on new projects for the mining sector. For all these reasons we anticipate industrial production will remain in negative territory throughout the entire course of 2020 before gradually improving in 2021.



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