

Economic Indicator — September 15, 2021

# Despite Ida & Supply Chain Woes, Output Surpasses Pre-Pandemic Level

## Summary

Industrial production grew 0.4% in August. A rebound in utilities production offset a drop in mining activity and helped boost the headline figure. Manufacturing, which comprises three-quarters of all industrial activity, rose just 0.2%; though it would have been 0.4% were it not for Hurricane Ida.

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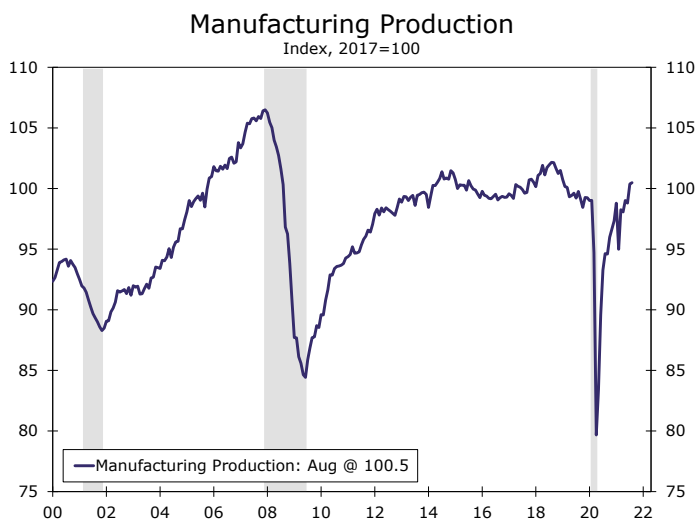
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## Industrial Production Ekes Out Modest Gain

Industrial production increased just 0.4% in August which was a notch below the half a percent increase that had been expected. This gain, however, was enough to lift total industrial production back above its pre-pandemic, February 2020 level. Last month's initially reported gain of 0.9% was pared to an increase of 0.8%. Supply chain problems are not improving even though demand in the factory sector remains quite strong.

The headline print would have been an even bigger miss had it not been for a 3.3% bounce back in utilities output after that category fell sharply in July. Mining output was the soft spot, falling 0.6% on the month. But manufacturing output was also pretty soft in August with a gain there of only 0.2%, just half the 0.4% that had been expected. That said, the Federal Reserve estimated that Hurricane Ida subtracted 0.2 percentage points from overall manufacturing output during the month.



Source: Federal Reserve Board and Wells Fargo Securities

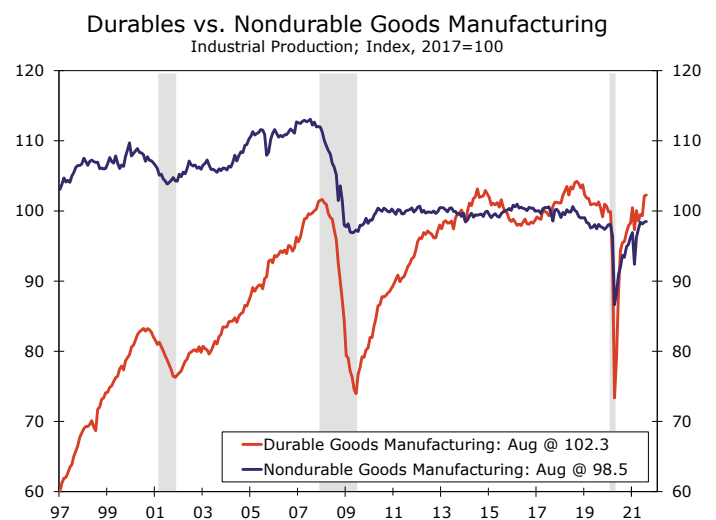
Though still beset by sourcing problems, the production of durable goods edged up 0.1% in August. The largest gain among industries was recorded in furniture & related products, one welcome bright spot in an industry that has seen long wait times for deliveries. The output of nondurable goods also edged up, with gains in consumer categories like food, beverage & tobacco products, but there were also gains for paper as well as petroleum & coal products outweighing smaller losses elsewhere.

The trends in production reflect what we've seen in spending where durable goods outlays have generally outpaced spending on shorter-lived goods primarily consumed in the service sector. Amid the pivot to services, we see scope for nondurables production to eventually outpace durables production. Still, that trend reversal may have to wait until after businesses have rebuilt depleted stockpiles. Capacity utilization for manufacturing increased 0.1 percentage point in August to 76.7%. Capacity utilization rates for all three sectors remained below their long-run averages.

## Same Supply Story for Awhile Yet

Supply problems, from sourcing inputs to getting the help needed to produce, continue to limit the pace of production. But we believe this curb on growth today should boost growth tomorrow. Lean levels of inventories suggest even as consumer demand transitions back to services, production will remain strong to replenish low stock. Meanwhile, exceptional demand as well as severe labor shortages also suggest firms will continue to seek labor-saving or productivity-enhancing technologies to meet demand. For August, consumer output rose 0.8%, led by a 1% gain in nondurable goods, while business equipment output was up 0.5%.

As seen in our [Pressure Gauge](#), it seems it will be some time yet before supply chains begin to more meaningfully ease. Job openings in the manufacturing sector specifically are at a record high, and even if producers are able to secure the help they need/get their hands on inputs and produce, increased lead times and costs associated with getting product to end-markets continue to disrupt supply chains.



Source: Federal Reserve Board and Wells Fargo Securities

### Pressure Gauge

Indicator	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	
Time	ISM Manufacturing Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5	
	ISM Services Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	69.6	
	Ships at Anchor-LA & Long Beach (Mo. Avg.)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	33.4	40.6
Volume	Taiwan Electronic Product Exports (YoY)	46.2%	18.1%	24.3%	13.2%	23.8%	15.6%	19.1%	26.1%	21.8%	19.5%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.6%	21.9%	
	Cass Freight Index (YoY)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	12.3%	
	Unfilled Orders (3-Mo. Ann.)	7.6%	3.7%	0.9%	-2.2%	-0.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.3%		
Price	World Container Index (WCI) (USD/40ft Box)	\$1,633	\$1,520	\$1,500	\$1,549	\$1,788	\$2,009	\$2,144	\$2,541	\$2,592	\$2,806	\$3,955	\$5,263	\$5,227	\$4,991	\$4,919	\$5,898	\$7,052	\$8,879	\$9,556	\$10,036
	WCI: Shanghai-Los Angeles (USD/40ft Box)	\$1,525	\$1,433	\$1,615	\$1,718	\$2,343	\$2,923	\$3,283	\$3,934	\$4,072	\$4,047	\$4,118	\$4,186	\$4,292	\$4,234	\$4,267	\$5,453	\$6,793	\$9,797	\$10,721	\$11,539
	PPI Transp. & Ware. of Goods (3-Mo. Ann.)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	16.5%	20.7%	16.0%	12.6%	6.5%	
	Dry Van Rate Per Mile (YoY of 4-Wk. Mov. Avg.)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%	22.9%
Inventory	Inventory-to-Sales Ratio (All Businesses)	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25			
	ISM Manufacturing Inventories Index	46.5	46.9	49.7	50.4	50.5	47	44.4	47.1	51.6	50.8	51	50.8	49.7	50.8	46.5	50.8	51.1	48.9	54.2	
	ISM Manufacturing Consumer Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2	
	Inventory Too Low (Net % of Firms)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	11.0%	
Labor	Production & Manuf. Posts (vs. Feb. 2020)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%	
	Loading & Stocking Posts (vs. Feb. 2020)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%	

Source: ISM, Bloomberg LP, Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, NFIB, Indeed.com and Wells Fargo Securities

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