

Economic Indicator — May 16, 2023

Sharp Downward Revisions Sap Joy From Surge in Production

Output Roughly Where it Stood 6 Months ago, but Gaining Some Momentum

Summary

The 0.5% headline gain in industrial production mischaracterizes what is happening in the industrial space. Downward revisions lowered prior months' production numbers such that the actual level came in right in line with expectations, which is to say essentially flat.

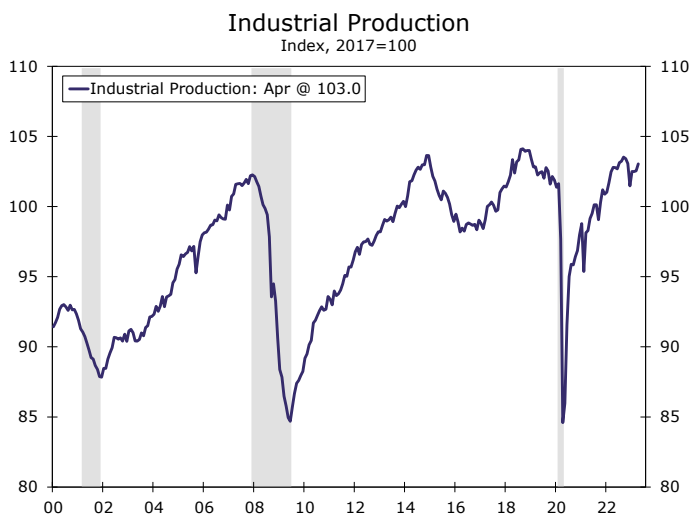
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Tim Quinlan

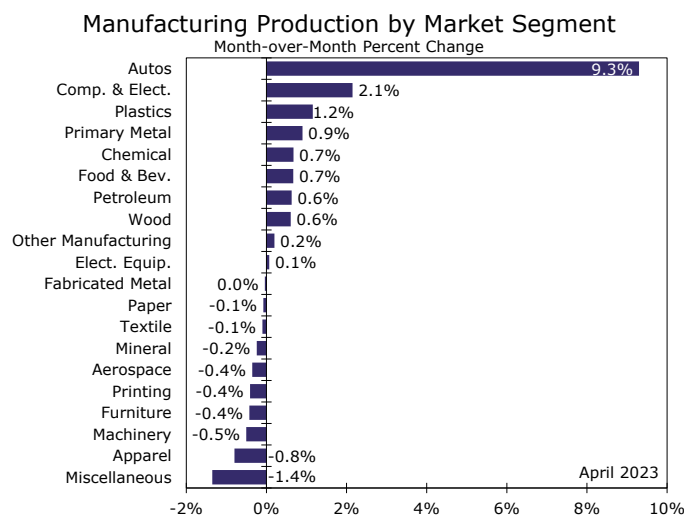
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Source: Federal Reserve Board and Wells Fargo Economics

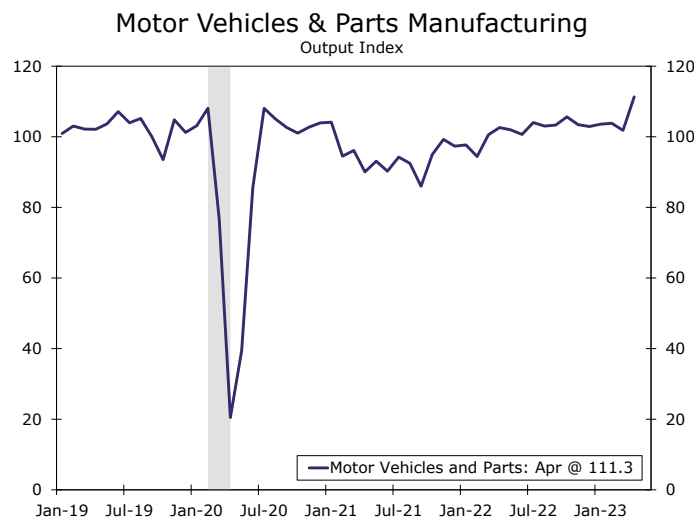


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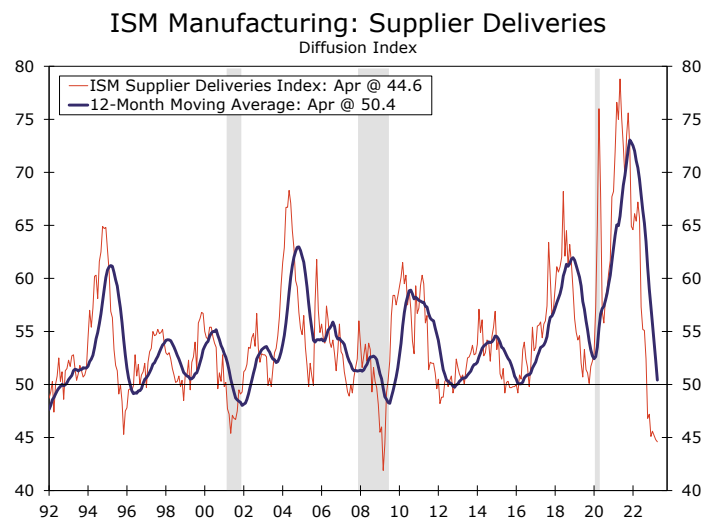
A Surge in Motor Vehicles and Parts Saved the Day

Had it not been for a sharp rebound in motor vehicle and parts production, the downward revisions in industrial production (IP) would have indicated a lower level of output ([chart](#)). Autos may have been the disappointing factor in the retail sales report this morning, but it was the hero for industrial production. Motor vehicle and parts production surged more in the month April alone than it did over the course of the past 12 months ([chart](#)). Autos accounted for more than half of the 1% gain in April manufacturing. Such a massive move in a single month is largely attributable to the lagged effect of the clearing of the logjam in supply chains. Many industries have reported fewer difficulties in terms of getting the stuff they need, but motor vehicle and parts producers have been the exception until recently. Consider the separately reported supplier deliveries component of the ISM index, which in April fell to its lowest since 2009 ([chart](#)). That tells you that broadly speaking, manufacturers are no longer waiting for things to show up. But in the automotive space, a single key component, even a small one such as a semiconductor, can hold up the entire production process. With many of these missing pieces finally falling into place, automakers have at last ramped up production, which they did in April to an extent seen only two times outside of recession rebounds in the past 20 years.

That is not to say that the strength was all vehicles, as manufacturing ex-autos and parts was up 0.4% in April, the best gain since January. We wrote extensively about the discipline of manufacturers not over-producing going into a downturn and the payoff of that approach is now paying off. When demand picks back up, rather than having to draw down inventory, firms that did not overproduce can increase output instead.



Source: Federal Reserve Board and Wells Fargo Economics



Source: Institute for Supply Management and Wells Fargo Economics

Overall IP Was Essentially Flat

Beyond manufacturing, mining production rose 0.6% and utilities output pulled back 3.1% in April after weather-related distortions in previous months drove utilities up 8.4% in March. Despite expectations for production to be flat, overall IP rose 0.5% in April. But after factoring in downward revisions to the prior two months, the level of IP was more-or-less in line with what was expected, which is to say essentially flat. IP is now roughly consistent with where it stood six months ago, signaling some stabilization in production after a weak start to the year.

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