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Economics Group

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Industrial Production: Slowdown in Manufacturing

Output in the industrial sector fell 0.5 percent in April, its sharpest decline since August. Weather was to blame for the drop in utilities output, but is no excuse for another decline in manufacturing production.

Industrial Production Falls on Lower Utilities & Manufacturing

Industrial production fell more than expected in April, declining 0.5 percent over the month. Adding a little salt to the wound, the 0.4 percent gain March was shaved down to 0.3 percent. This puts total production up only 0.6 percent since the year began, as the industrial sector continues to struggle amid weak domestic and global growth.

Some of today's headline weakness is attributable to payback for a jump in utilities output in March. April was unseasonably cool, but much less so compared to March, leading to a decline in utilities output of 3.7 percent. There were some positives in the report as mining production rose 0.9 percent and is now up 4.2 percent from a year earlier.

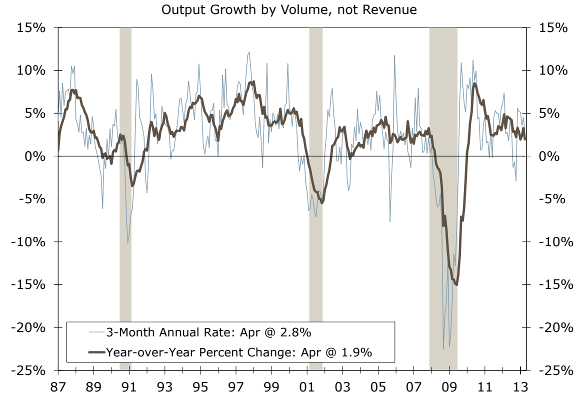
What was more concerning in today's report was the 0.4 percent decline in manufacturing output. This marks the second straight monthly pullback and suggests that the manufacturing sector is one part of the economy that may not be weathering the feared spring slowdown as well as other parts of the economy. U.S. growth has not exactly been impressive lately, but has held up rather well when compared to slowing global growth. This deterioration in the current global outlook has likely had an outsized effect on manufacturing compared to more domestically-focused parts of the economy. Weakness in April's manufacturing output largely stemmed from durables production, which fell 0.6 percent compared to a 0.1 percent decline in nondurables. Declines were broad based across durable industries, with only computer and electronics seeing a gain. Nonmetallic minerals products led the decline, but were closely followed by a 1.3 percent tempering in motor vehicles production, which had been relatively strong over the past year and remains up 5.2 percent year-over-year.

The drop in manufacturing production sent capacity utilization 0.4 percentage points lower in April. This should continue to limit pricing power among manufacturing firms, as we saw earlier today in the report on producer prices.

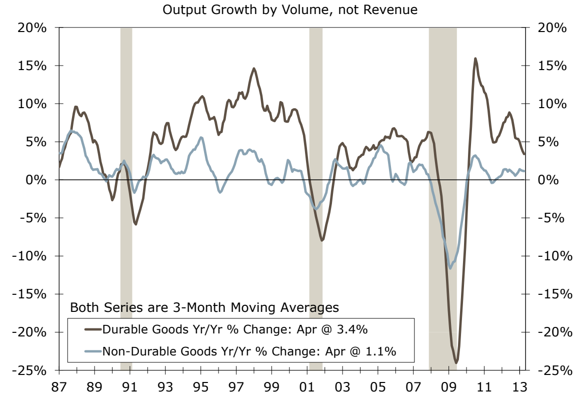
Empire Survey Signals Further Weakness in Manufacturing

Weakness in manufacturing activity looks set to carry on through May. Earlier this morning we saw that the New York Fed's Empire State Manufacturing Index slipped back into negative territory in May after three straight months of positive readings. The pullback in the index was relatively mild, with the headline falling 4.5 points to -1.4, but broad deterioration among components generates slightly more cause for concern. New orders and the workweek turned negative, while inventories and unfilled orders fell at a faster pace than in April. The Empire survey is only the first of a handful of regional PMIs we will see over the coming weeks, but thus far indicates that April's slump in manufacturing output will likely proceed through May.

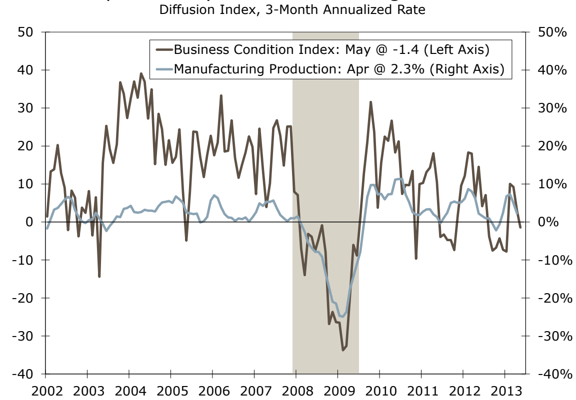
Total Industrial Production Growth
Output Growth by Volume, not Revenue



Durable Goods vs. Non-Durable Goods
Output Growth by Volume, not Revenue



Empire Survey and Manufacturing Production
Diffusion Index, 3-Month Annualized Rate



Source: Federal Reserve Board, Federal Reserve Bank of New York and Wells Fargo Securities, LLC

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