ECONOMIC UPDATE

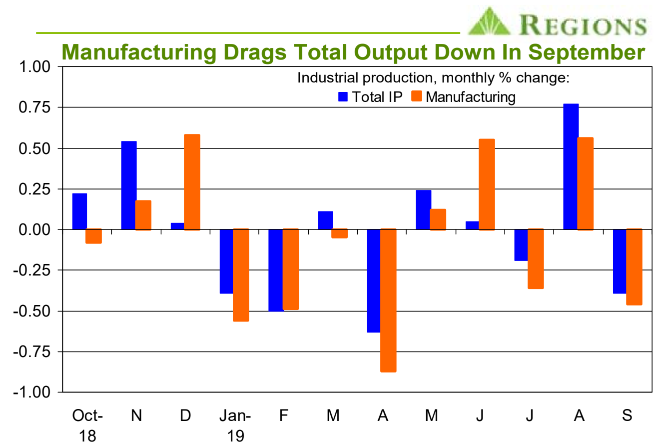
REGIONS

October 17, 2019

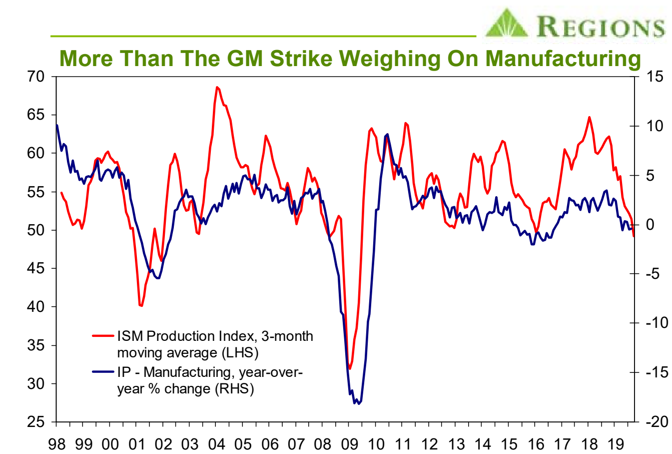
September Industrial Production: More Than The GM Strike Weighing On Manufacturing

- Industrial production fell by 0.4 percent in September, with manufacturing output down by 0.5 percent
- The overall capacity utilization rate fell to 77.5 percent, while the utilization rate in manufacturing falling to 75.3 percent
- On a year-over-year basis, total industrial production was down by 0.1 percent in September, with manufacturing output down by 0.9 percent

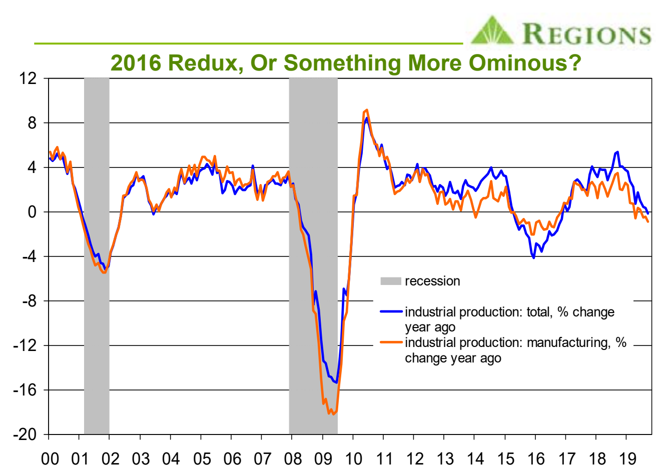
Total output amongst the nation's factories, mines, and utilities fell by 0.4 percent in September, doubling down on our forecast of a 0.2 percent decline. At the same time, however, what was originally reported as a 0.6 percent increase in August is now reported as a 0.8 percent increase. In our weekly *Economic Preview*, we noted there was a good deal of uncertainty in our September forecast due to the impact of the GM strike, particularly given that the strike began in mid-month, which called into question how much of the impact would be picked up in the September data. We further noted that even aside from the GM strike, manufacturing activity was likely to still be weak. As it turns out, the 0.5 percent decline in manufacturing output in September was larger than the 0.3 percent decline our forecast anticipated. Excluding motor vehicles and parts, output in the manufacturing sector fell by 0.2 percent in September. Utilities output was up by 1.4 percent while mining output was down by 1.3 percent in September. The overall capacity utilization rate fell to 77.5 percent in September, with the utilization rate in the manufacturing sector slipping to 75.3 percent. With the GM strike appearing to be ending, the shortfall in production in September will be made up for over coming months, which has the capacity to impact the top-line industrial production figure. Of far more significance, however, is that the more fundamental headwinds facing the factory sector – weak global demand, uncertainty over trade, Boeing's issues, a persistently strong U.S. dollar, and still-elevated inventories – are unlikely to fade away soon. When August industrial production came in stronger than anticipated, we stated that the August data seemed to us an outlier in what remains a downward trend in manufacturing activity. Though overstated in the September data, that remains the case.



Assemblies of automobiles and light trucks fell to an annualized rate of 10.335 million units in September, a 5.1 percent decline from August, while the capacity utilization rate in this segment of manufacturing fell to 76.5 percent from 82.2 percent in August. These steep sequential declines reflect the impact of the GM strike, but should not deflect attention away from what has been a downward drift in production over the past several months. This reflects a slowing pace of motor vehicle sales to consumers, and had fleet sales not been as strong as they have been over recent months the decline in production would have been more pronounced, though this support will fade at some point. Though assemblies of heavy trucks remains fairly steady, what is growing excess capacity in truck transportation suggests assemblies of heavy trucks will weaken at some point.



In our *Economic Preview*, we noted that aside from motor vehicle production, the one detail of the September data we would be the most interested in was output of business equipment, which is a harbinger of trends in broader business investment as measured in the GDP data. To the surprise of no one, this series has been highly uneven over recent months, and that pattern held in September. Output of business equipment fell by 0.7 percent in September after having risen by 1.1 percent in August. One consolation is that output of information processing equipment rose by 1.1 percent and has continued to outperform the broader category. Output of industrial equipment, however, tumbled by 1.4 percent in September; to our earlier point, the 1.6 percent increase in this category in August is an outlier in what is turning into a persistent downturn, which is consistent with our forecast of lasting weakness in business investment spending.



Both total output and manufacturing output are down on an over-the-year basis. To be sure, the decline is somewhat exaggerated by the GM strike, but the downward trend was in place long before the strike began. Keep in mind that industrial production is one of the main indicators used by NBER to make calls on turns in the business cycle. As such, it is reasonable to ask whether the data are pointing to a repeat of the transitory downturn seen in the industrial sector in 2016 or something more ominous. We think it more the former than the latter, though there is zero room for complacency on this point.

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