ECONOMIC UPDATE

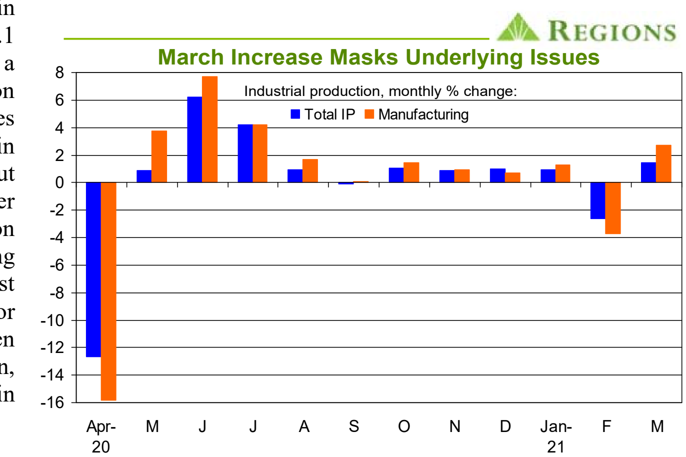
REGIONS

April 15, 2021

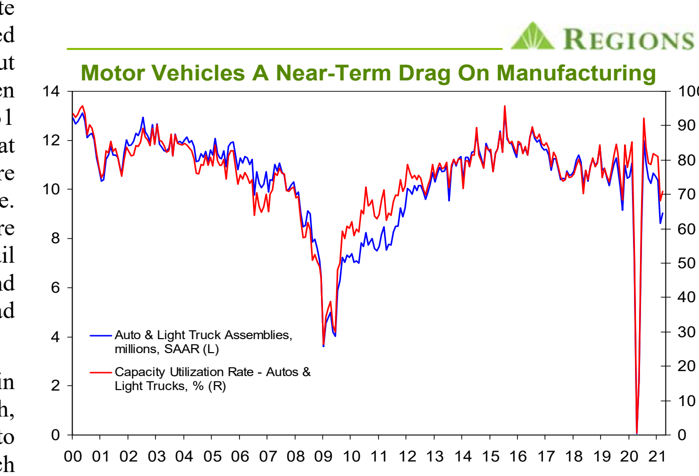
March Industrial Production: March Increase Masks Underlying Issues

- Industrial production rose by 1.4 percent in March, with manufacturing output up by 2.7 percent
- The overall capacity utilization rate rose to 74.4 percent, while the utilization rate in manufacturing rose to 73.8 percent
- On a year-over-year basis, total industrial production is up by 1.0 percent as of March, with manufacturing output up by 3.1 percent

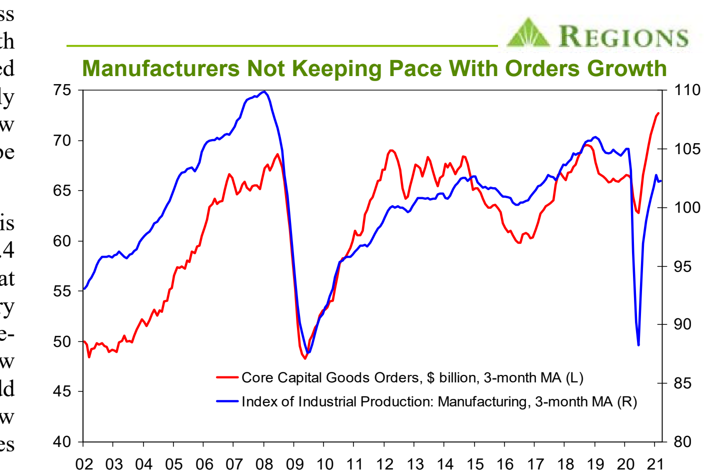
Total output amongst the nation's factories, mines, and utilities rose by 1.4 percent in March, shy of the 2.5 percent increase anticipated in the consensus forecast and the 3.1 percent increase our forecast called for. Manufacturing output was up by 2.7 percent, a smaller increase than we and the consensus expected. This helps account for the miss on the forecast for total industrial production, with a larger than expected decline in utilities output also playing a part. After surging by (an upwardly revised) 9.2 percent in February as unusually harsh winter weather gripped much of the U.S., utilities output plunged by 11.4 percent in March. Mining output rose by 5.7 percent in March after having fallen by 5.6 percent in February. While harsh winter weather wreaked havoc on all sectors of industrial production in February, including leading to manufacturing plants being idled or run at much lower capacity, the March rebound was less robust than would have been the case were it not for the global shortage of semiconductor chips. This held down motor vehicle production in March and will do so to an even greater extent in April, and other areas of manufacturing, such as appliance production, are also being impacted. The chip shortage could be a drag on manufacturing, and in turn total industrial production, for some months to come.



Assemblies of autos and light trucks fell sharply in February, down to an annualized rate of 8.615 million units from January's rate of 10.369 million units. In part this reflected weather effects that led many producers in the South, Southwest, and Midwest to shut down temporarily, but also in part reflected the effects of the chip shortage. That is seen more clearly in the March data; while assemblies rose to an annualized rate of 9.031 million units, that is considerably below the average monthly rate of 10.761 million that prevailed over the July 2020-January 2021 period. Shutdowns have become more widespread in April, and it is not yet clear when activity will begin to come back online. As such, at a time when consumer demand remains strong, production shortfalls are leading to growing supply shortages, which in turn are contributing to higher retail vehicle prices. Other areas of manufacturing that are being impacted are electronics and appliances, and in the case of appliances this will exacerbate supply shortfalls that had already been building.



Production of business equipment, a reliable indicator of business investment in equipment & machinery as reported in the GDP data, rose by 2.7 percent in March, though this does not fully recoup the 3.0 percent decline in February. Still, prior to February business equipment output posted a string of solid monthly advances, which are likely to continue in the months ahead, and our forecast anticipates business investment in equipment and machinery remaining a key contributor to real GDP growth over coming quarters. That said, recent months have seen growing backlogs of unfilled orders for manufactured goods, which reflects a host of factors such as labor supply constraints, supply chain/logistics bottlenecks, and robust global demand for raw materials. As such, growth in machinery output will be slower than otherwise would be the case and this may weigh on growth in business fixed investment in the GDP data.



Another factor that could weigh on growth in business investment in the near term is what remains low capacity utilization. The overall capacity utilization rate rose to 74.4 percent in March, but this is well below the average utilization rate of 78.2 percent that prevailed over the 26 months prior to the onset of the pandemic. Within the factory sector, the utilization rate of 73.8 percent in March is similarly far below the pre-pandemic trend, and within the mining sector the gap is significantly larger. Low utilization rates leave room for sustained growth in output before producers need to add capacity. With energy producers subject to greater financial discipline and notably low utilization rates within the mining sector, it could be some time before this sector makes a meaningful contribution to overall growth in business investment spending.

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