

Economic Indicator — February 15, 2024

Like Everyone Else, Manufacturers Waiting for Lower Rates

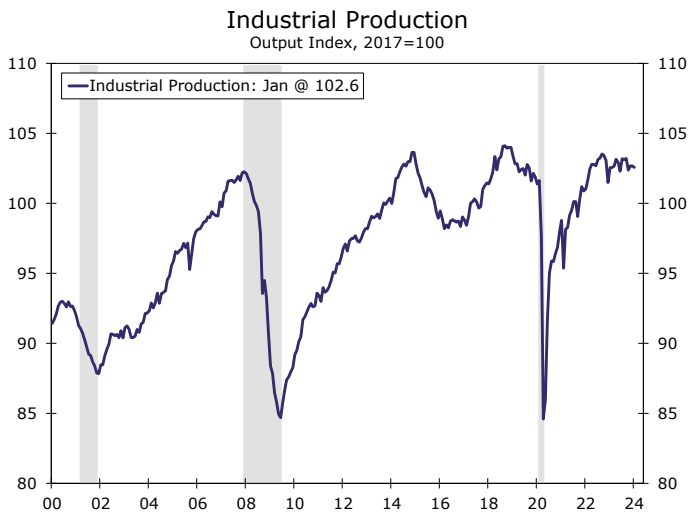
Summary

Activity in the industrial sector continued at the stall speed in January that characterized 2023. Manufacturing activity slipped by the most in three months, demonstrating that even as rate cuts are on the horizon, current production remains constrained.

Economist(s)

Shannon Seery Grein
Economist | Wells Fargo Economics
shannon.grein@wellsfargo.com | 704-410-0369

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283



Source: Federal Reserve Board and Wells Fargo Economics

Stall Speed

The stall speed of industrial sector activity that characterized 2023 continued in January, with total industrial production down 0.1% during the month ([chart](#)). Weakness was primarily due to a 0.5% drop, or the largest in three months, in manufacturing output ([chart](#)). Manufacturing activity is a bulk of industrial production, accounting for about three quarters of the total, meaning it has a large bearing on total activity. But additional weakness also came from mining output (~1.5% of total IP), which slipped 2.3%. The big offset was in the small but mighty utilities component of IP (~10% of IP), which rebounded 6.0% in January after being down in three of the previous four months.

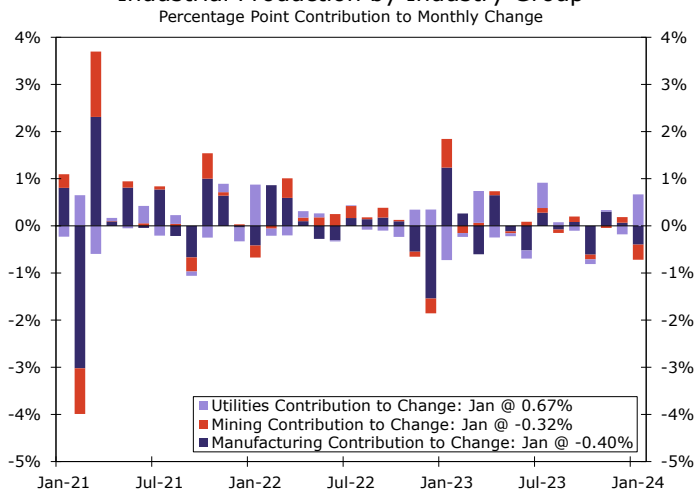
Manufacturing activity continues to be constrained by economic uncertainty and higher financing costs crimping capex investment ([chart](#)). January's output was held back by a wide range of industries. Petroleum & coal products output dropped the most, down 3.7%, and five others also reported declines of 1% or greater with a notable 1.3% drop in chemicals production, which represents about 16% of all manufacturing output. On the other end of the spectrum, output in the electrical equipment & appliances and aerospace & miscellaneous transportation industries both rose 1.5%. The largest gain in output came from printing, up 1.6%. In short, activity was a bit more mixed than the total drop would suggest.

The slowdown in activity has helped cool inflation. Even as the ISM manufacturing index [suggested](#) some increased price pressure in January, there continues to be little sign of concern of a reacceleration in inflation coming from the manufacturing sector. Capacity utilization, a measure of how much of the industrial sector is being utilized, slipped to 78.5% in January, or the lowest since late 2021. In short, businesses are using their factories *and* workers less intensely. That's an upshot for the Fed trying to tame inflation, but the situation warrants close monitoring because layoffs could ensue if demand for labor in the factory sector does not keep pace with the supply of labor.

But despite the weak outturn for January, there are some early signs that the industrial sector may be on the cusp of recovery, as recent data suggest activity may be turning a corner. Shipments and new orders for durable goods ticked up at the end of last year, and the ISM manufacturing index signaled the slowest pace of contraction in the sector in more than a year in January. Separately released regional manufacturing data this morning from the Federal Reserve Bank's of New York and Philadelphia also suggested some improvement in February.

Uncertainty over the timing of rate cuts continues to be the biggest hurdle for manufacturers as it eats into businesses new capital spending plans. While recent inflation data may go against an imminent rate cut, the widespread expectation remains that the Fed's next rate adjustment will be lower. It's simply becoming a question of when and by how much, which will likely help support investment this year even if the recovery comes at a gradual pace.

Industrial Production by Industry Group



Source: Federal Reserve Board and Wells Fargo Economics

Manufacturing Production



Source: Federal Reserve Board and Wells Fargo Economics

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE