

Datanote: US Industrial Production, August

In one line: Strong headline numbers, but a grim near-term outlook.

- Industrial production rose by 0.8% in August, well above the consensus, 0.2%. But net revisions were -0.5%.
- Manufacturing output rose by 0.9%, also stronger than the consensus, 0.2%. Net revisions were -0.7%.

The significant beat to consensus for both total production and manufacturing output was essentially matched by big downward revisions to earlier months, leaving the level of industrial and manufacturing activity roughly as expected. Most of the volatility in the headlines was due to big swings in the auto sector, with the 9.8% rebound in auto output last month almost exactly reversing the 8.9% plunge in July. We suspect this reflects the timing and extent of auto manufacturers' annual shutdowns for

retooling, which usually take place in the early summer. The state-level jobless claims data for states with a lot of auto production also hinted at more extensive shutdowns than usual in July this year than in 2022 or 2023. That said, manufacturing output ex-autos also rose last month, by 0.3%, stronger than the recent trend, and taking that measure of output to a three-month high. Meanwhile, mining production rose by 0.8% and utilities production was effectively unchanged, and the underlying trend in both of these

components is essentially flat.

Auto production is likely to flatline, at best, from here. Production has now rebounded and consumer demand probably will continue to be weighed down by high rates and a softening labor market. The recent resilience in manufacturing output ex-autos, meanwhile, is very hard to square with the grim recent survey data, with the production index of the ISM manufacturing survey pointing to sharp falls in output over the next few

months, as our second chart shows. High interest rates, weak external demand, depressed home sales, and anemic measures of investment intentions all point to a poor outlook for manufacturing. The roughly 15% drop in oil prices since their level in early July, meanwhile, will weigh on mining output. The services sector and consumers' spending are what really matter for the economy's overall strength, but a weak industrial sector looks set to be a headwind to growth over the rest of this year.

