Economic Update

March 15, 2024

Industrial Output Rose by Only 0.1% and Manufacturing Output Rose by 0.8% in February; Both Failed to Reverse Much Bigger Declines in January

- **Industrial production rose by a scant 0.1% in February, with manufacturing output up by 0.8%, both failing to fully reverse much bigger declines in January.**
- **Industrial output has been declining for more than a year due to higher interest rates and softening demand.**
- **Industrial production is set to decline modestly further this year.**

Industrial production (IP) rose by a scant 0.1% in February after a much larger decline of 0.5% (revised down from -0.1%) in January. February industrial output is down 0.2% from a year ago.

Manufacturing output rose by 0.8% in February, after a much larger decline of 1.1% (revised down from -0.5%) in January. February manufacturing output is down 0.7% from a year ago.

In February, production of durable goods rose by 1.0% and production of nondurable goods rose by 0.7%, both failing to offset the bigger downward revised declines in January. Production of motor vehicles and parts rose by 1.8% in February but that reversed only about half of the 3.8% decline in January. Mining activity rose by 2.2% in February but again failed to reverse the 2.9% decline in January. Utility output fell sharply by 7.5% in February, fulling reversing the rise in January. The swing from colder-than-normal weather in January to warmer-than -usual weather in February is more of a weather report than an economic report.

The total capacity utilization rate held steady at 78.3% in February from a downward revised January. The manufacturing capacity usage rate rose to 77.0% in February but again failed to reverse the decline to 76.4% in January. It is down from almost 80% in early 2022.

Higher interest rates and slowing demand for goods have been weighing on the industrial sector. Total industrial production is down almost 1% from its recent peak in the fall of 2022, while manufacturing production is down by more than 2% over the same period. Production has fallen for interest-rate sensitive goods like building materials, business investment equipment, and consumer durable goods. Reduced demand for consumer goods, after a big splurge in spending during the initial recovery from the pandemic, has also been a drag. And slowing global growth has weighed on exported goods.

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With a drop in industrial output, the capacity utilization rate has been declining. This, along with easing supply chains, has contributed to slower inflation over the past couple of years. In particular, consumer goods prices were essentially flat in 2023, providing some relief to households. Goods prices have moved up in the first two months of 2024 but goods price inflation is likely to remain soft this year with continued excess capacity. PNC expects further modest declines in industrial production in 2024 as consumer spending growth on goods slows and spending on services continues to rise.

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