Economic Update

April 16, 2025

Small Drop in Industrial Production in March; Moderate Growth Outside of Utilities

- **Industrial production fell 0.3% in March, but was dragged down by utilities; output in manufacturing and mining rose over the month.**
- **Industrial production has been flat since 2022.**
- **The capacity utilization rate fell slightly in March, with the manufacturing rate up a bit.**
- **Tariffs will weigh on industrial production in the near term.**

Industrial production fell 0.3% in March from February, the first decline since November. The decline came from an almost 6% drop in utilities output, which is heavily tied to the weather. Manufacturing output rose a moderate 0.3% in March, with mining output up 0.6%. Output of motor vehicles and parts rose 1.8%, perhaps as automakers tried to boost output ahead of tariffs.

On a year-ago basis total industrial production was up a modest 1.3% in March. Manufacturing and mining output were both up 1.0%, with utilities output up 4.4%. Both overall and manufacturing output have been basically flat since 2022, after recovering to their pre-pandemic levels. But manufacturing output is still about 6% lower than it was before the Great Recession in 2007 to 2009, even as overall industrial production is slightly higher.

The overall capacity utilization rate fell to 77.8% in March from 78.2% in February; the manufacturing rate rose to 77.3% in March from 77.1% in February. After recovering from the pandemic the capacity utilization rate gradually fell from 2022 to 2024, but has bottomed out in recent months. The capacity utilization rate is not at a level that would cause inflationary pressures, but tariffs will raise prices for manufactured goods, both imported and domestic, in the months ahead.

The industrial side of the economy is holding steady in early 2025. After a strong recovery in 2020 and 2021, both total and manufacturing industrial production have been basically flat since early 2022. Higher interest rates have been a drag on the industrial sector, even as the overall economy has continued to expand.

Industrial production is set to decline in the near term. Although tariffs may boost demand for some US-made goods, many domestic manufacturers will face higher prices for imported inputs. In addition, US manufacturers will raise prices to take advantage of tariffs; even though this may increase profits, the higher prices will weigh on demand and reduce volumes. Exporters will suffer from retaliatory actions by US trading partners; yesterday China cancelled orders for Boeing aircraft.

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