Industrial Production Flat in August; Manufacturing Output Fell 0.3%, Pulled Lower by Autos

Headlines

- **Industrial production was flat in August, with a 0.3% decline within manufacturing. Production of motor vehicles and parts fell 1.2%.**
- **Although the August numbers were soft, the industrial sector has been improving since late 2024.**
- **The capacity utilization rate was flat in August and remains historically low. Broad capacity constraints are not behind current inflationary pressures.**
- **Production should continue to increase in the near term as the economic expansion continues.**

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Details

Industrial production was flat in August from July, with a 0.3% decline in manufacturing output. Overall industrial production had increased in each of the previous four months. Output rose 0.2% in July, unrevised. Mining output rose 0.1% in August, with utilities output up 1.8% due to unseasonably warm weather. There was a large 1.2% decline in motor vehicles and parts output in August as high interest rates and elevated fuel prices are weighing on vehicle sales.

Although total industrial production was flat in August, and output fell in manufacturing, the trend in 2026 is still positive. After partially recovering from the pandemic in 2020 and 2021, industrial output declined from 2022 to 2024. But it has been slowly increasing over the past couple of years due to strong demand for tech products, reshoring in the face of higher tariffs, and solid consumer demand. Overall industrial production is slightly above its pre-pandemic level, although manufacturing output is still about 0.5% below where it stood in early 2020.

The overall capacity utilization rate was unchanged in August from July at 76.3%, while the manufacturing capacity utilization rate fell to 75.7% from 76.0%. Both of those rates are well below the 80% that typically signals stronger inflation from capacity constraints. The current elevated inflation is coming from the military conflict with Iran, tariffs, and services, not from capacity issues within the industrial sector. Even in electric power generation, transmission, and distribution, which is often cited as a source of inflation due to strong demand for electricity from data centers, the capacity utilization rate is around 70%, near its lowest level since the series began in 1967. The consumer price index for electricity was up almost 4% in August from a year earlier.

Industrial production should continue to increase gradually through the rest of this year and in 2027. Consumer demand is rising slowly but steadily, and demand for investment goods used in the tech buildout will remain strong. Ongoing reshoring in the face of tariffs will also drive output gains, although higher interest rates will be a drag. Auto production is likely to remain soft given very low affordability and pressures on consumers.

Risks are weighted to the downside. A correction in tech spending would be a drag on production of business equipment, and would also weigh on purchases by high-income consumers from a declining stock market. The major upside risk is a quick end to the conflict with Iran that would provide a boost to consumer purchases.

On a year-ago basis total industrial production was up 1.4% in August, with manufacturing production up 0.9%. Mining production was up 0.3% year-over-year, with utilities output up 6.2%.

Figure 1: Industrial production (3mma)

Sources: Federal Reserve, PNC

Figure 2: Industrial production (% chg., y/y)

Sources: Federal Reserve, PNC

Figure 3: Capacity utilization (%, SA)

Sources: Federal Reserve, PNC

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