Economic Update

February 15, 2024

Small Drop in Industrial Production in January, With Soft Details

- **Industrial production was down 0.1% in January, with manufacturing output down 0.5%.**
- **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 this year.**
- **Softness in the industrial sector is contributing to slower inflation.**

Industrial production fell 0.1% in January from December. Industrial output in December was revised slightly lower, to no gain from a 0.1% increase, but November was revised higher, to a 0.3% increase from no change.

Manufacturing output fell 0.5% over the month. Production of durable goods rose 0.1%, with production of nondurable goods down 1.1%, including a big drop for petroleum and coal products. Production of motor vehicles and parts fell 0.2% in January. Mining activity fell 2.3% in January from December, with utilities output up 6.0% with colder-than-usual weather.

On a year-ago basis total industrial production was flat, with a 0.9% decline for manufacturing.

The total capacity utilization rate fell to 78.5% in January from 78.7% in December and is down from above 80% in late 2022. The manufacturing rate fell to 76.6% in January from 77.1% in December. It is down from almost 80% in early 2022.

Higher interest rates and slowing demand growth 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.

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 inflation is likely to remain soft in the near term with continued excess capacity.

PNC expects further modest declines in industrial production in 2024 as consumer spending growth slows. Positives will be interest-rate sensitive goods like autos and building materials, with long-term interest rates down over the past few months, and the Federal Reserve set to cut the fed funds rate starting in the spring.

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