

Economic Indicator — March 16, 2021

February Industrial Production Was Held Up by More than Weather

Summary

Industrial production fell 2.2% in February, marking the largest monthly decline since the lockdown halted output in March and April of last year. With broad-based declines across industries, it is more than just storms holding up industrial activity.

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Industrial Recovery Put on Ice

The industrial sector's recovery went into reverse last month. Total production fell 2.2%, the largest decline since last spring's wide-scale lockdowns. The severe winter weather that gripped the Central United States was the largest culprit in the decline, but supply chain issues have come to the point where they are not just restraining growth, but pushing the recovery backwards.

To be sure, last month's polar vortex did a number on the industrial sector. The unusually frigid February followed an abnormally warm January. The cranking up of thermostats sent utilities production up 7.4%. At the same time, the temporary shuttering of oil & gas wells drove mining output down 5.4% in February. The weather disruptions filtered on through to the manufacturing sector. Factory output declined 3.1%, with the largest declines centered around industries most affected by the extreme weather, including chemical manufacturing (-7.1%) and petroleum and coal product manufacturing (-4.4%).

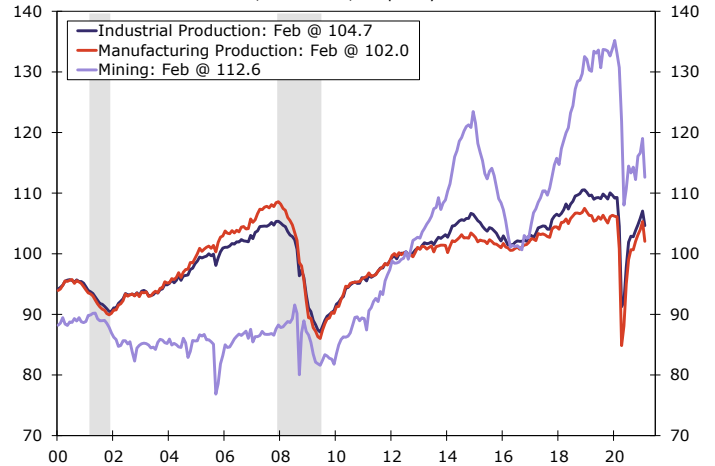
Can't Chalk It Up Merely to Weather

While February's extreme weather wreaked havoc on utilities and mining, the manufacturing sector is also dealing with a logistics problem, and there is evidence it is getting worse. Motor vehicle & parts production, for example, was down in three out of the previous five months going into today's report, but the 8.3% drop in February is larger than the three prior monthly declines put together. This is not a demand problem; many dealers are having trouble keeping adequate inventory in stock, but the lack of availability has pushed many buyers into the used car market driving up prices of used autos.

It is not just autos. Production was down for many durable manufacturing categories including wood products, machinery and fabricated metals. The ISM survey for February reported that its supplier delivery index rose to 72.0, indicating that wait-times in the manufacturing sector are nearly as widespread now as they were at the height of the lockdown when the same measure was at 76.0. Other than that, you'd have to go back to the 1970s to find a higher reading on supplier deliveries. *Excluding the effects of the winter weather, manufacturing output would still have fallen about half a percent in February.*

Industrial Production

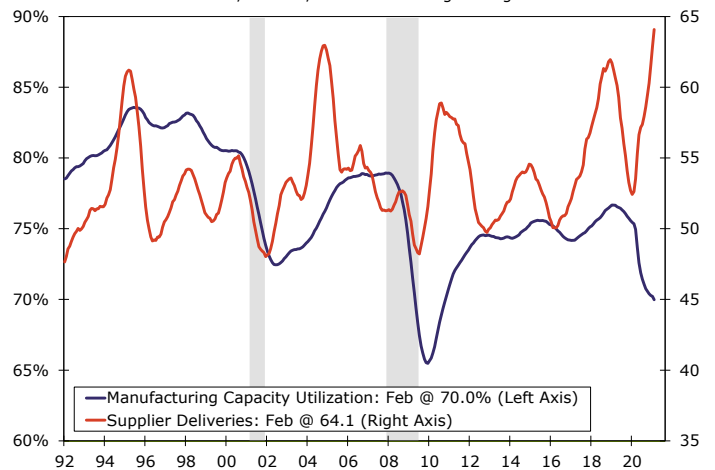
Index, 2012=100, Output by Volume



Source: Federal Reserve Board and Wells Fargo Securities

ISM Supplier Deliveries vs. Mfg. Cap. Utilization

Index, Percent, 12-Month Moving Average



Source: Institute for Supply Management, Federal Reserve Board and Wells Fargo Securities

Outlook for Manufacturing is Good...Provided Inputs Can Be Sourced

February's setback in industrial production is only temporary, in our view. Orders activity remains strong, fueled by low inventories as well as consumers and businesses in a strong position to spend. Supply chain bottlenecks are set to restrain the overall pace of activity in coming months, but are emblematic of the solid demand picture that underscores the outlook. For industry in general, this is a good problem to have: demand is growing faster than productive capacity. But these are trying times for the logistics industry and supply chain managers. In our view, the top speed for manufacturing is set by a governor: the movement of global supply chains. Businesses can only ramp production when they have the inputs they need.



Source: Institute for Supply Management, Federal Reserve Board and Wells Fargo Securities

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