Economic Update

August 15, 2024

Industrial Production Down 0.6% in July With Drags from Beryl and Autos; High Interest Rates Remain a Drag

- **Industrial production fell 0.6% in July, with about one-half of the decline due to Hurricane Beryl. There was also a big drop in auto production over the month.**
- **Industrial production has been flat for more than two years, weighed down by high interest rates.**
- **Industrial activity will remain weak in the near term but should pick up somewhat next year with expected Fed interest rate cuts.**
- **There are few inflationary pressures coming from the industrial side of the economy.**

Industrial production fell 0.6% in July from June according to the Federal Reserve. Hurricane Beryl, which caused plant closures in the Gulf area, accounted for about one-half of the drop in output over the month. Manufacturing output fell 0.3% in June, with no change in mining output and a 3.7% drop in utilities output as weather patterns were more seasonal after an especially hot June. Industrial production increased 0.3% in June, revised lower from a 0.6% increase.

On a year-ago basis total industrial production was down 0.2% in July, with a 0.1% increase in manufacturing, a 1.5% drop in mining, and a 0.1% decline in utilities.

Total industrial production and manufacturing output have both been essentially flat since the spring of 2022 after a very strong recovery following the pandemic. Total output is close to its pre-pandemic peak, while manufacturing output is slightly below it.

The total capacity utilization rate fell to 77.8% in July from 78.4% in June. The manufacturing rate fell to 77.2% in July from 77.5% in June.

The industrial sector in the U.S. is treading water in mid-2024. Output plunged during the pandemic and then surged in the early stages of the recovery. But consumer spending on goods has been basically flat for a few years, and high interest rates have been a drag on capital goods and building materials. The strong dollar has also weighed on U.S. industrial output.

Industrial production will remain flat in the near term as economic growth softens in the second half of this year as high interest rates remain a drag. Output should pick up modestly in 2025 as Federal Open Market Committee cuts to the federal funds rate lead to a reacceleration in economic activity.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

PNC expects an FOMC rate cut at the committee's next meeting, on September 18, with additional rate cuts through the rest of this year and in the first half of next year.

There is still a fair amount of excess capacity in the industrial sector; this is helping to contain inflationary pressures. According to the consumer price index, core consumer goods prices (excluding food and energy) were down 1.9% in July from a year earlier.

Auto production was down 8% in July from June. The automakers typically retool their plants over the summer leading to big fluctuations in auto output. Manufacturing output excluding autos was up 0.3%. Production of chemicals fell more than 1% in July with temporary closures of chemical plants in Texas due to Beryl.

PNC Economics
economics@pnc.com

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