Economic Update

September 17, 2024

Strong Rebound in Industrial Production in August, Although Flat Over the Last Year

- **Industrial production increased more than expected in August, up 0.8%. A 10% jump in auto production led the increase.**
- **On a year-ago basis industrial production was flat.**
- **The capacity utilization rate rose to 78.0% in August, but it is down from a couple of years ago. Inflationary pressures from the industrial sector are scant.**
- **High interest rates remain a drag on the industrial sector. Production should pick up next year as the Fed eases monetary policy.**

Industrial production rose 0.8% in August from July, according to the Federal Reserve Board. This was far above the consensus expectation of 0.1% gain. This followed a 0.9% drop in July (revised lower from a 0.6% decline). Manufacturing output jumped 0.9% in August, including a 10% rebound for motor vehicles and parts. Mining output rose 0.8% on the month, while utilities output was flat.

Even with the big monthly gain, total industrial production was unchanged on a year-ago basis. Manufacturing output was up 0.2% year-over-year, with mining output up 0.1% and utilities output down 0.9%.

The capacity utilization rate rose to 78.0% in August from 77.4% in July (revised down from 77.8%). The manufacturing capacity utilization rate was 77.2% in August, up from 76.6% in July. Both the overall and manufacturing capacity utilization rates are down by about 3 percentage points from the spring of 2022 when the economy was recovering from the pandemic. With sufficient excess capacity, inflation pressures from the industrial sector are minimal.

Industrial production surprised to the upside in August, with a big 0.8% increase. But this followed a slightly larger drop in July, and industrial production—both overall and in manufacturing—has basically been flat over the past year. High interest rates have been a drag on consumer purchases of durable goods and business spending on capital equipment, and imports of manufactured goods have been increasing, weighing on domestic production, while exports have been flat.

The industrial side of the economy is likely to remain soft in the near term. Consumer spending growth is slowing, and high interest rates remain a drag. Weak demand overseas is weighing on U.S. exports of manufactured goods. Industrial activity should pick up toward the middle of 2025. The Federal Open Market Committee is set to cut the fed funds rate at its meeting tomorrow, with further rate cuts to come in 2024 and 2025. Lower rates will eventually encourage business investment and consumer spending on durable goods, supporting industrial activity.

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The big swings in auto production over the past couple of months are likely due to summer plant shutdowns for retooling; it can be difficult to correct for these in the seasonal adjustment process for the data.

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