ECONOMIC UPDATE

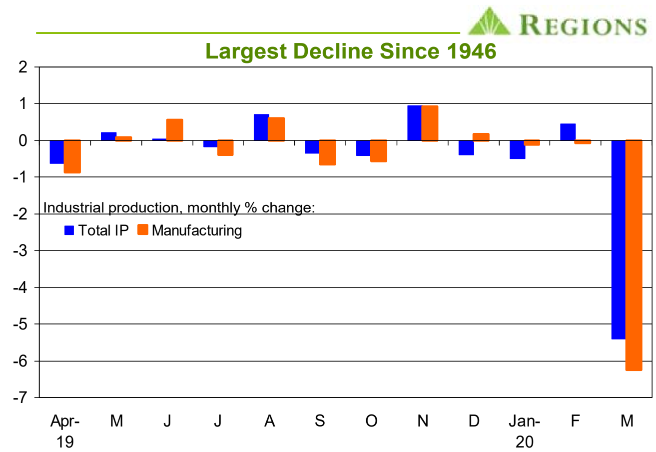
REGIONS

April 15, 2020

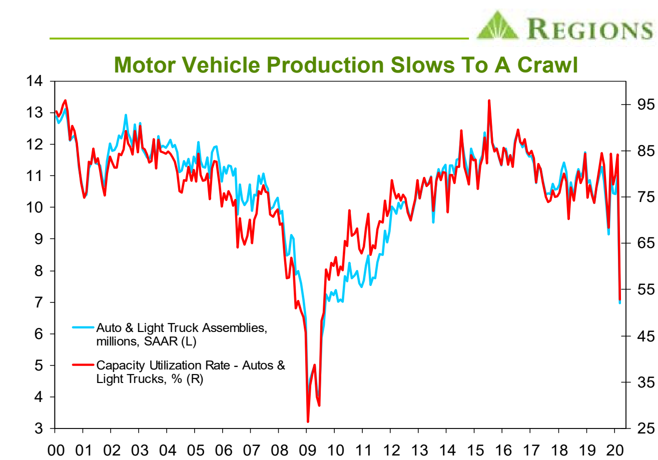
March Industrial Production: Largest Decline Since 1946, With Further Declines Ahead

- Industrial production fell by 5.4 percent in March, with manufacturing output down by 6.3 percent
- The overall capacity utilization rate fell to 72.7 percent, while the utilization rate in manufacturing fell to 70.3 percent
- On a year-over-year basis, total industrial production was down by 5.5 percent in March, with manufacturing output down by 6.6 percent

Total output amongst the nation's factories, mines, and utilities fell by 5.4 percent in March, the largest monthly decline since 1946 and larger than the 3.8 percent decline our forecast anticipated. Output in the manufacturing sector fell by 6.3 percent, mining output fell by 2.0 percent, and utilities output fell by 3.8 percent. Though a sharp decline in motor vehicle assemblies weighed on manufacturing output, even after excluding motor vehicles, manufacturing output declined by 4.5 percent in March. The Federal Reserve noted that data collection was impaired by so many establishments having shut down during the month, but while this may mean the estimates are less precise than is typically the case, the March industrial production data clearly capture the winding down of economic activity that took place over the back half of the month. The overall capacity utilization rate slid to 72.73 percent in March, the lowest utilization rate since April 2010. At 70.27 percent, the utilization rate in the manufacturing sector is also at its lowest since April 2010. As with most other data series, while the March data on industrial production may be unsettling, the April data will be far worse.

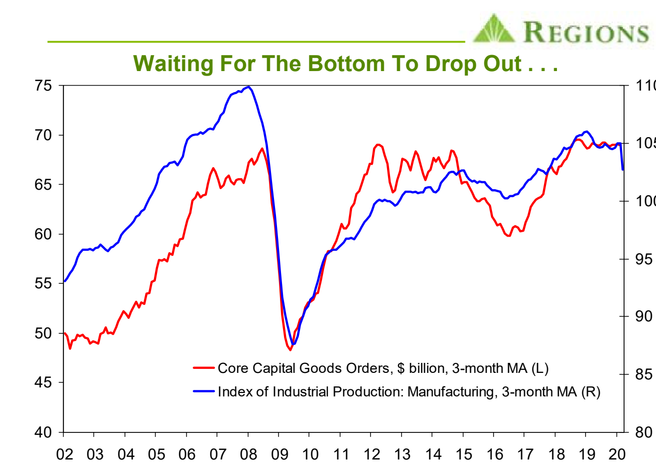


Assemblies of autos and light trucks fell to an annualized rate of 6.963 million units in March, the lowest monthly rate since August 2009. Though we were aware that production had basically shut down by the end of the month, we were not sure about the extent to which this would be captured in the March industrial production data, hence our forecast anticipated a smaller decline in motor vehicle production, and in turn a smaller decline in total manufacturing output. Either way, assemblies will be even lower in the April data. Despite efforts to facilitate online sales and more generous financing terms, motor vehicle purchases have taken a material hit and it is unclear the extent to which demand will come back once we are on the other side of the coronavirus. As such, motor vehicle production could remain subdued for some time to come.



As noted above, there is far more to the steep decline in manufacturing output than the drop-off in motor vehicle assemblies. In line with the steep declines seen in the various regional surveys of manufacturing activity, production of business equipment fell by 8.6 percent in March, and April will see an even larger decline. This series is a good indicator of business investment in equipment & machinery as reported in the GDP data. Capital spending has clearly fallen off sharply, and we think it will be a laggard once the broader economy begins to recover from the steep downturn experienced over 1H 2020.

Mining production fell by 2.0 percent in March, but this could be more of a reflection of price than of quantity. Recall that crude oil prices fell sharply over the course of March, but the EIA data show output did not decline materially until very late in the month. As such, it is all but certain the April data will show a much larger decline in output in the mining sector. While OPEC and Russia have reached an agreement to cut production, this has not provided a significant lift to crude oil prices, which continue to be dragged lower by a virtual collapse in global demand that won't begin to reverse to any meaningful degree until the latter half of 2020.



Utilities output fell by 3.9 percent in March, unwinding a good share of the 7.0 percent increase seen in February. Utilities output is of course inherently volatile from one month to the next, reflecting fluctuations in weather patterns. That said, with "non-essential" businesses being shut down across much of the nation, utilities output for March will have been much lower than is normal for the month, and the same will be true of April as well, though to a much greater extent than seen in the March data..

Coming into 2020, the industrial sector of the U.S. economy was beginning to find its footing thanks to a relaxation of trade tensions. As Q2 began, however, Boeing's production issues, the fallout from the coronavirus, and sharply lower energy prices had sent the industrial sector into a freefall, with solid ground not yet in sight.

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