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United States
Economic Indicator Insights

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Industrial Production

April industrial production comes in softer than expected, against a backdrop of revisions that shave some real vigor from the recent manufacturing track. That will further discourage FOMC optimists--but not yet fatally to calls for medium removal of accommodation. Those are based on a longer-term view, and on concerns about "financial imbalances," aka bubbles.

Specifically, overall production was disappointingly flat, relative to expectations (Consensus: +0.4%; Decision Economics: +0.5%). Manufacturing output fell 0.4%, while utility output rose 1.7% and mining output gained 0.8%.

The weakness in manufacturing was centered in the volatile motor vehicles sector, which dropped 8.9% (perhaps with some Japan parts-shortage impact). But, manufacturing activity ex that sector was feeble too, rising just 0.2% in April, and--in the more serious development--that from a March level revised down by 0.9%.

That manufacturing-ex-motor-vehicles revision accumulated over the period since November--the latest unrevised level--but 0.6-point of it occurred over the last two months, putting the February change at -0.1%, instead of +0.3%, and March at 0.4%, instead of +0.6%.

The effect was clearly to take some stiffness out of what had appeared to be a normal late-recovery manufacturing track, and to introduce a hint of faltering. Perhaps, that reflected greater-than-perceived caution in adding to inventories of domestically produced goods, or perhaps it reflected more cautious domestic buying of physical goods than was reflected in first-quarter real GDP numbers (both industrial production and real GDP are imperfect measures of physical production).

In any case, Fed policy makers are looking at a less robust manufacturing growth track--on their in-house data--than they might have thought they were. This is not catastrophic with respect to central-tendency GDP forecasts, but reduces whatever confidence in those numbers was based on perceptions of momentum. The importance of manufacturing orders readings to day-to-day assessments of the economy will go up sharply--most notably with respect to ISM-type turning point indicators.