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Amidst Worst Factory Utilization Environment Since Great Depression, Some Signs of Life, as US Production Increases in July

First Real Monthly Increase Since December 2007; Factory Utilization Also Ticks Up

SCDigest Editorial Staff

Last week brought a bit of good news in terms of economic data for US manufacturers, but at the same time re-enforced just how steep this downturn has been.

US industrial production, which includes both manufacturers as well as utilities, rose .5% in July according to the Federal Reserve – the first monthly increase since December of 2007, with the exception of hurricane-driven results of last October.

Manufacturing output rose even faster, at 1.0%, with automobile manufacturers leading the way as a result of the surging demand for cars coming out of the “cash for clunkers” program. Still, US factory production outside of auto was still positive for the month, growing at .2% - perhaps indicating the US economy really has hit bottom and is starting to recover, though prospects for a rapid recovery seem small.
Even with this bit of positive news, the impact of the economic downturn on US manufacturing has been severe. As shown in the chart on page 2, US factory output has tanked since the recession started in early 2008, and even with the July increases is still down 14.5% year over year.

Capacity Utilization Worst Since Great Depression

As the chart above shows, while production volumes have fallen hard, very little manufacturing capacity has really yet left the system.

In fact, despite the 14.5% drop in output since July, 2008, the US has seen manufacturing capacity decline a mere .5% in that time. As shown in the chart on page 3, that means, of course, that factory utilization in the US has also taken a tremendous hit.

This recession has led to the worst factory utilization numbers since the Great Depression. In the 2001-2002 recession, for example, the worst level US factory utilization reached was 71.4%. It was 65.4% in July of 2009.

Manufacturing capacity utilization also increased slightly in July, up .7%. But that left it still at just 65.4%, versus 76.1% in July 2008, for a drop of 10.7 percentage points in a year.

This recession has led to the worst factory utilization numbers since the Great Depression. In the 2001-2002 recession, for example, the worst level US factory utilization reached was 71.4%. In the very severe recession of 1981, capacity utilization fell only to levels in the upper 60 percent range.

Low factory utilization, of course, causes the US manufacturing sector and individual producers all kinds of problems, besides just the loss in sales volumes. Factory overhead as a percent of sales rises, adding another hit to the bottom line. Factories with much idle capacity have little or no pricing power, often causing prices to fall – and indeed

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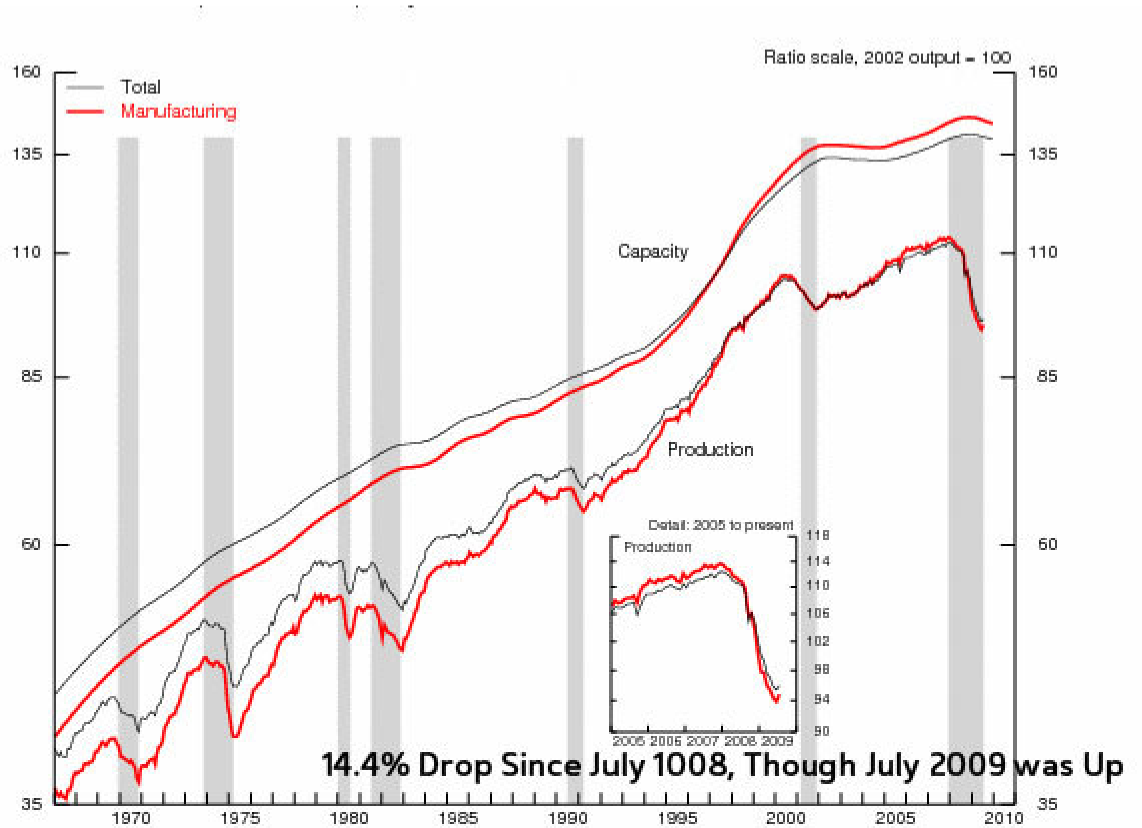
US Industrial and Manufacturing Output



in July, wholesale prices in the US fell .9%. The excess capacity also means manufacturers need much less investment in new plant or equipment, so that adds a further drag on the economy.

Still, the modest growth in both output and utilization in July may in fact be signs of the "green shoots" many economists are looking for in the US economy.

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US Factory Utilization