OXFORD ECONOMICS

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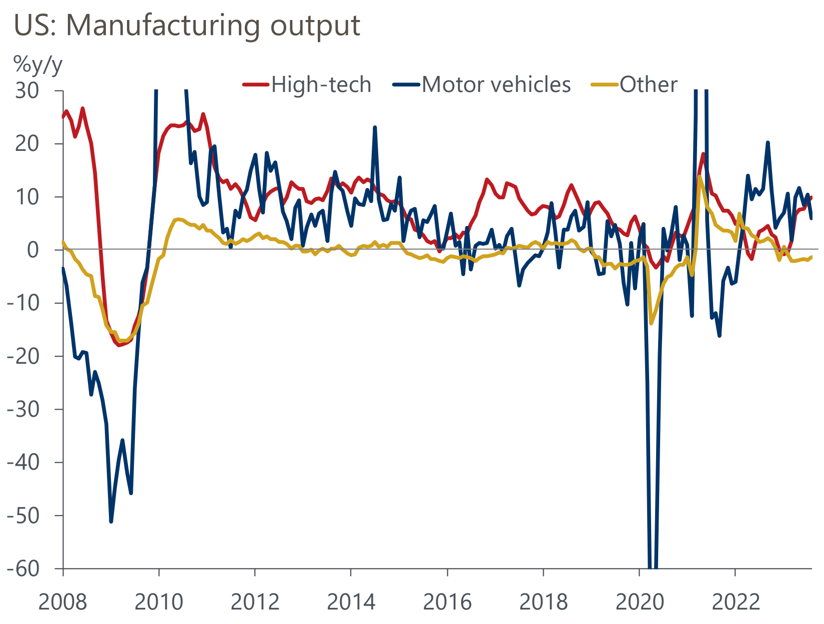
Data Insight | US

UAW strike looms over industrial production

- **The small increase in industrial production in August does not change the picture that the factory sector has been broadly stagnant over the past twelve months, and the outlook remains similarly subdued, even before the United Auto Workers strike began last night.**
- **The 0.1% rise in manufacturing output was held back by a 5% drop back in motor vehicle output, which reversed a similar-sized surge a month earlier. Utilities output rose more modestly as weather patterns were closer to seasonal norms, while mining output was boosted by a 3% rise in oil and gas output. Higher energy prices should spur further recovery in mining output over the rest of the year.**
- **The strike by United Auto Workers that began at midnight involves 12,700 of the total 146,000 affected members, and the risk is that action broadens over coming days. We estimate a total walkout would reduce motor vehicle output by over 30%, which will begin to show up in the September report. Another key risk is that disruption reverses the improvement in auto supply chains and puts renewed upward pressure on vehicle prices.**
- **The strong dollar, subdued global demand, and continued rotation away from goods spending to services mean the outlook for production more broadly over the next six to twelve months remains downbeat.**

The 0.4% m/m rise in industrial production in August follows July's revised 0.7% gain (revised down from 1%), but those gains have been flattered by the warmer than usual summer weather, which boosted utilities demand, and the surge in oil prices, which prompted a 3% rise in oil and gas extraction in August. Drilling activity had been trending lower this year, but the renewed surge in global oil prices in response to the extension of OPEC+ production cuts will probably put a floor under activity in the sector and contribute to a rebound in output over the rest of the year.

Chart 1: Autos & high-tech output preventing outright declines



Source: Oxford Economics/Haver Analytics

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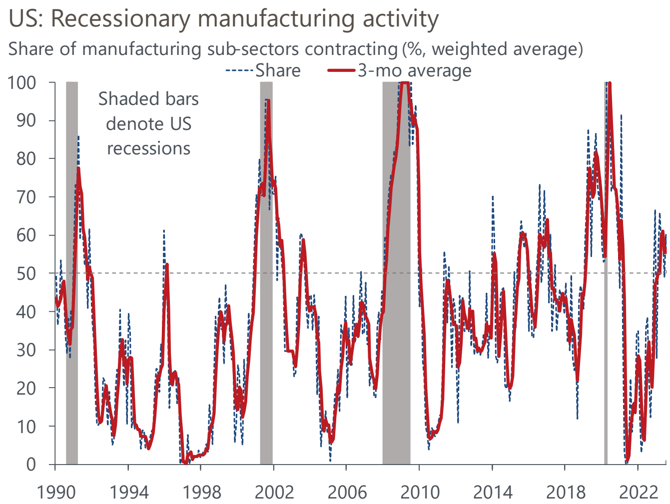
Excluding utilities and mining, manufacturing output gains have been more subdued, rising 0.1% in August after a 0.4% gain in July. Motor vehicle output has been volatile over recent months, falling 5% last month after a similar sized gain in July - likely reflecting seasonal adjustment problems linked to automakers' usual summer retooling schedules. Offsetting the decline in autos were strong gains in machinery output (+2.1%), computers & electronics (+1%), and aerospace output (+3.4%)

The far bigger factor looming over auto output is, of course, the strike action by United Auto Workers against the Big Three Detroit automakers, which formally began last night with 12,700 workers walking out at three factories. That is a fraction of the total 146,000 members covered by the expired pay deal, so the scope of the strike will likely grow over the coming days. We estimated that if all those workers were on strike, the level of motor vehicle output would fall by 30% or more. With the strike beginning mid-month, however, not all of that decline will show up in the September IP report.

Taking a step back, industrial production is up just 0.3% over the past year while manufacturing output is 0.7% lower than a year ago - a picture of broad stagnation. Under the surface, however, that masks continued strength in autos output as well as production of high-tech products, related to the reshoring of semiconductors and other sensitive electronics (**Chart 1**).

Strip out autos and high tech production, and the rest of the factory sector is in a mild recession. Indeed, our research shows that close to 60% of major sub-sectors are contracting, which is relatively rare absent a recession in the rest of the economy (**Chart 2**).

Chart 2: More than half of industries in recession



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