What's Left of) Our Economy: Yet Another Manufacturing Recession – Driven by Automotive

The Federal Reserve's new (May) industrial production data showed that the biggest monthly drop-off in real automotive production since the harsh winter of 2014 helped drag American manufacturing back into a new technical recession – as output is now down cumulatively for more than two straight quarters. The latest slump extended into both the durable goods and the non-durable goods super-sectors. Combined vehicle and parts production also experienced its first real year-on-year production decline since October, 2009 – early in the current economic recovery — with the former especially weak.

The poor May performance and largely negative revisions helped push overall manufacturing's real output 4.63 percent below its peak prior to the onset of the Great Recession – in late 2007. That is, over the longer haul, this manufacturing slump still hasn't ended.

Here are the manufacturing highlights of the Federal Reserve's new release on May industrial production:

>The biggest monthly automotive decrease since January, 2014's depressed levels helped drag sequential U.S. manufacturing output down in inflation-adjusted terms for the third time in the last four months in April. As a result, industry overall fell back into technical recession, as its cumulative output has declined since last July.

>May's 0.39 on-month real production drop was led by a 4.16 percent plunge in the combined output of motor vehicles and parts. The automotive sector, which led domestic manufacturing out of its deep downturn after the previous recession, had not experienced as great a monthly contracton since a harsh winter helped produce a 6.47 percent falloff in January, 2014.

>In absolute terms, May's constant dollar production was the lowest since June, 2015.

>As a result of the poor May performance, automotive production also fell year-on-year (by 1.42 percent) for the first time since October, 2009 – shortly after the Great Recession officially ended.

>The May monthly automotive production decrease stemmed mainly from a 7.25 percent nosedive in real vehicles output – the biggest such decline since the 10.41 percent plunge during that winter-affected January, 2014.

>In absolute terms, vehicle production sank to its lowest real level since February, 2015.

>Moreover, May vehicle production was down year-on-year (by 6.96 percent). That drop represented its first year-on-year decline since last November.

>Motor vehicle parts production fell on month in May, too, but only by 1.94 percent. That was its biggest such decrease, however, since August, 2015.

>For overall manufacturing, most revisions were negative. April's initially reported 0.33 percent real production increase was downgraded to 0.22 percent, March's downwardly revised 0.30 percent falloff was revised down further – to 0.39 percent – and February's upgraded 0.09 percent after-inflation production dip is now judged to be only 0.03 percent.

>Year-on-year real manufacturing output grew in May – but just barely (0.01 percent). That was the worst such figure since December, 2015's 0.17 percent annual decline. Between May, 2014 and May, 2015, constant dollar manufacturing output improved by 1.21 percent.

>The May manufacturing figures along with the negative revisions pushed the sector's overall output to 4.63 percent below its levels when the last recession officially began – more than eight years ago, in December, 2007. By this measure, the Great Recession has still not ended for domestic manufacturing.

>The weak automotive numbers, along with large monthly declines in machinery and furniture, contributed to a 0.69 percent monthly decrease in real durable goods production.

>More encouragingly, April's monthly after-inflation durable goods production was revised up from 0.60 percent to 0.74

percent, the best such performance since last July.

>Nonetheless, the super-sector's year-on-year real output went negative (by 0.25 percent) for the first time since last December. Between the previous two Mays, inflation-adjusted durable goods production rose by 0.51 percent.

>Price-adjusted durable goods production is still below that of last July. Therefore, it, too, remains mired in a span of cumulative contraction long enough (ten months) to qualify as a technical recession.

>Further, during the more than eight years since the last recession ended, real durable goods output has grown by only 0.22 percent.

>The non-durable goods sector in May returned to its recent trend of outperforming durable goods. Its sequential constant dollar production fell by a mere 0.02 percent.

>At the same time, April's fractional monthly real output advance in durable goods production was revised down to a sizable 0.41 percent decrease.

>These results plunged this super-sector into recession, too, as cumulative output is now down since last August. This technical downturn is the second for non-durable goods in the last two-and-one-half years.

>Non-durable goods' real output was up annually in May – by 0.34 percent. But that's much slower than the 2.05 percent real growth between May, 2014 and May, 2015.