Boeing Dragged Down Manufacturing Output in January

Stephen Brashear/Getty Images

JOHN CARNEY | 14 Feb 2020 | 3

3:07

Manufacturing activity rose in January–but only if you exclude the effects of Boeing's ongoing troubles.

Factory activity edged down one-tenth of a percentage point in January, according to data released by the Federal Reserve. Excluding civilian aircraft, however, manufacturing rose by a respectable three-tenths of a percentage point. Compared with a year ago, output is down 0.8 percent.

"The output of business equipment declined 2.6 percent as a result of the slowdown in the production of aircraft," the Fed said.

Boeing suspended production of the 737 Max in January but announced the suspension in mid-December. It is likely that the December 0.7 percent contraction in business equipment output also stemmed from the coming suspension of production. Capacity utilization for manufacturing edged down 0.1 percentage point in January to 75.1 percent, 3.1 percentage points below its long-run average, also likely reflecting a Boeing-drag.

"So without the Boeing effect, January manufacturing output would be up cumulatively since last February – by 1.09 percent, not by 0.70 percent. And the increase since the advent of the main Trump tariffs would have been 0.74 percent, not 0.34 percent," Alan Tonelson points out.

Production of autos and parts rose 2.4 percent in January, a welcome respite after the 5.1 percent decline in December. Compared with a year ago, production is up a solid 5.3 percent.

Autos helped push up overall consumer durable goods output for January, for a rise of 1.2 percent. But outside of autos, this category is showing signs of softness. Home electronics production slumped 1.1 percent, the third consecutive decline. Appliances, furniture, and carpeting fell 2.8 percent after rising in December and November.

These are seasonally adjusted figures, which means that the decline in appliances and furniture production cannot be written off to a slow period in the housing market. If anything, it is possible the seasonal adjustment is inflating these categories because the mild weather seems to have made the usual winter doldrums for the housing market less doldrummy. Given the overall strength of the U.S. consumer, the declines here are troubling. They may indicate the need for a firmer trade policy to avoid too much production to meet U.S. demand being leaked to foreign manufacturers.

The big, broad category of industrial production fell 0.3 percent in January, marking the fourth drop in the past five months. The category combines manufacturing, mining, and utilities. Utilities saw a big decline of 4 percent in January thanks to the mild weather, making sunny days the biggest cause of the fall in industrial production.

Mining saw its second consecutive gain in January.