ECONOMIC UPDATE

REGIONS

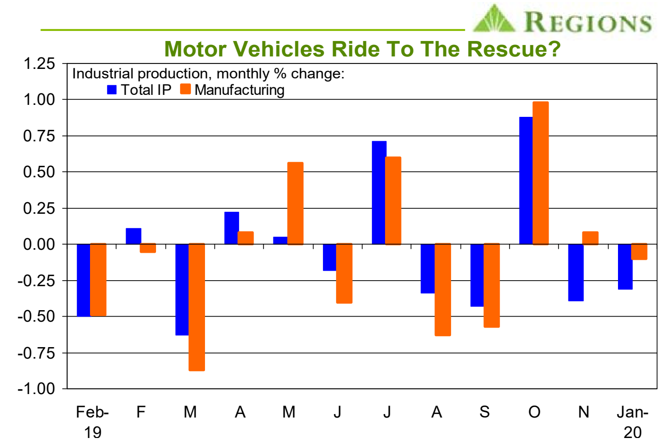
February 14, 2020

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

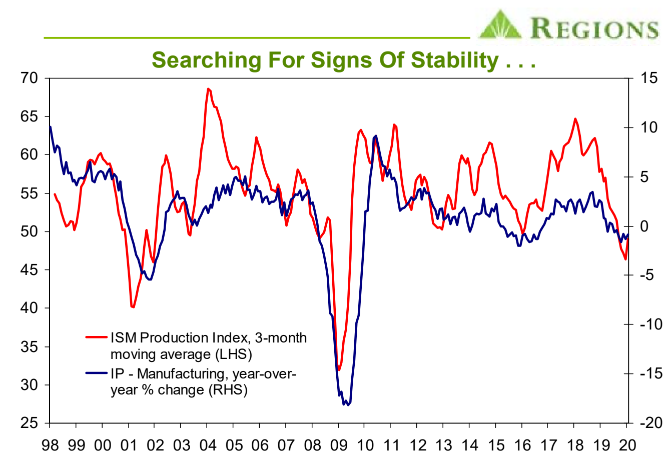
January Industrial Production: Motor Vehicles Ride To The Rescue?

- Industrial production fell by 0.3 percent in January, with manufacturing output down by 0.1 percent
- The overall capacity utilization rate fell to 76.8 percent, while the utilization rate in manufacturing fell to 75.1 percent
- On a year-over-year basis, total industrial production was down by 0.8 percent in January, with manufacturing output down by 0.8 percent

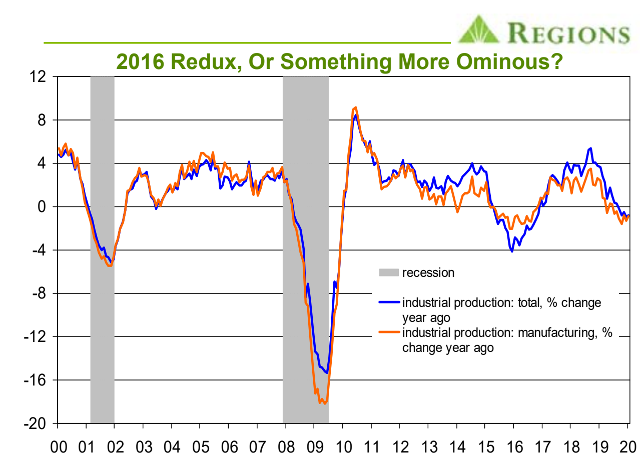
Total output amongst the nation's factories, mines, and utilities fell by 0.3 percent in January, matching the consensus forecast but less harsh than the 0.6 percent decline our forecast anticipated. As expected, Boeing's decision to halt production of the 737 Max beginning in January was a meaningful drag on manufacturing output. But, a jump in motor vehicle output greatly mitigated the drag from Boeing – that our forecast did not allow for higher motor vehicle production largely accounts for our forecast miss. This is in contrast to the December data – recall that motor vehicle production dropped sharply in December, largely negating what was an encouraging increase in ex-auto manufacturing. As the data for the last two months indicate, however, motor vehicle production can be fickle and, as such, should not be relied upon as a steady support for the manufacturing sector in the months ahead, particularly with the trend rate of unit motor vehicle sales slowing. That said, January will mark the worst, though not all, of the drag from Boeing in the industrial production data, and the data on ex-transportation activity within the manufacturing sector will be a better guide as to the path of business capital spending. As of now, however, those data are sending mixed messages.



Production of aerospace equipment fell by 7.4 percent in January, with production in other segments of the broad category offsetting some of the drag from the 10.7 percent decline in output of aircraft and parts. Though aircraft and parts accounts for a relatively small share of overall manufacturing output, that the decline in this category in January was so large knocked total manufacturing output down a few tenths of a point. With production of the 737 Max not coming to a complete halt until after the middle of January, there will be some residual effects in the February industrial production data. As noted above, however, increased production of motor vehicles and parts greatly mitigated the drag from Boeing. Assemblies of automobiles and light trucks rose to an annualized rate of 10.992 million units in January from December's pace of 10.316 million units. That employment amongst producers of motor vehicles and parts fell by 10,600 jobs in January and orders for motor vehicles and parts declined in December led us, well, at least our forecast of industrial production, astray. It could be that residual from the GM strike, which impacted Q4 2019 production, is still impacting motor vehicle production, though if this the case it should soon vanish from the data. Either way, looking ahead through 2020, we expect the pace of motor vehicle assemblies to drift lower, in line with what we see as a modest pullback in motor vehicle sales.



Production of business equipment, a precursor of patterns in business investment spending as reported in the GDP data, fell by 2.6 percent in January, but, again, the January data are skewed by production of the 737 Max having come to a halt. Output of information processing equipment rose by 0.7 percent in January, and has been on a nice run over the past few months, leaving it up 5.0 percent year-on-year. Output of consumer goods fell by 0.5 percent in January, and is down 0.8 percent year-on-year.



Outside of manufacturing, utilities output fell by 4.0 percent, reflecting January's atypically warm weather. It is worth noting that lower utilities outlays will hold down January consumer spending on services, reinforcing the softness in consumer spending on goods in January. Output in the mining sector rose by 1.2 percent in January.

For the manufacturing sector, the main question mark in early-2020 is whether we are seeing a repeat of 2015-16, i.e., a contracting manufacturing sector amidst the broader economy continuing to grow, or whether we are seeing something more ominous, such as a downturn in manufacturing presaging a downturn in the broader economy. There is little reason to suspect we are seeing the latter, but with lingering uncertainty over trade, Boeing's production issues, and the effects of the coronavirus, there is considerable uncertainty looming over the manufacturing sector. Along with what remains a high degree of idle manufacturing capacity, this will act as a drag on business investment.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com