Midwest Manufacturing Expanding Once More

The Chicago Fed Midwest Manufacturing Index (CFMMI) increased 0.2% from June to July, following a 0.1% decline in June. By comparison, the Federal Reserve Board’s industrial production index for manufacturing increased by 0.1% in July and 0.3% in June. The machinery sector had the strongest performance in the Midwest index, increasing by 1.3% in July, following a 0.4% increase in June. The auto sector had the largest decline, falling 0.6% from June to July. The steel sector recorded a 0.2% rise in July, following a 1.4% decline in June, its first decline in seven months. The resource sector’s output fell by 0.2% in the Midwest, its fourth straight monthly decline.

Although the CFMMI increased only 0.1 percentage point more than the industrial production index in July, each of the four major regional industrial sectors experienced growth that was equal to or better than its national counterpart. This is the first time this has occurred since May 1995. In May and June, all of the Midwest’s sectors had lower rates of growth than the nation. The July numbers do not suggest that the Midwest economy accelerated up to the performance of the nation. Rather, it appears that the factors that have slowed growth in the Midwest have also begun to have an impact on the nation’s growth as well. Gains in manufacturing output compared with a year ago have been declining consistently for both the nation and the Midwest since March of this year.

The strong performance by the machinery sector in July is indicative of a sector that has been performing well throughout the current expansion. (Caterpillar Inc., the nation’s largest maker of heavy equipment and farm machinery based in Peoria, Ill., reported record high corporate sales, revenues, and profits for the second quarter of this year.) Compared with a year ago, regional machinery sector output increased twice as fast as overall Midwest manufacturing output.

The weakness exhibited by the auto sector can be partially tied to temporary plant shutdowns for model changeovers as well as another strike at a General Motors plant that affected several of their assembly facilities.

While the region’s steel sector posted a gain of 0.2% in July, the nation’s steel sector fell 0.4%. Relative to a year ago, the Midwest’s steel sector continued to post increases twice as rapid as the nation’s.

The region’s resource sector decline of 0.2% in July matched that in the nation. Similarly, resource sector output in July was up 2.1% from a year ago in both the Midwest and the U.S.
The Chicago Fed Midwest Manufacturing Index (CFMMI) is a monthly estimate of manufacturing output in the region by major industry. The Midwest is defined as the five states comprising the Seventh Federal Reserve District: Illinois, Indiana, Iowa, Michigan, and Wisconsin. The CFMMI is a composite index of 16 manufacturing industries (identified by 2-digit SIC codes) that uses electrical power and hours worked data to measure monthly changes in regional activity. The CFMMI provides a regional comparison with the manufacturing component of the Industrial Production Index (IPMFG) compiled by the Federal Reserve Board. Although the IPMFG is constructed differently than the CFMMI, it also uses electrical power and hours worked data as measures of industry output for about 60 percent of its total production index.

CFMMI and IPMFG historical data are available on the Federal Reserve Bank of Chicago’s Web site at http://www.frbchi.org