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ECONOMIC DATA

Manufacturing Sputters as Broader U.S. Economy Slows

A loss of momentum in U.S. manufacturing aligns with weakening factory output overseas

A worker at the Andersen Corp. window factory in Cottage Grove, Minn., in September. U.S. manufacturing output fell 0.5% last month. PHOTO: JERRY HOLT/TNS/ZUMA PRESS

By Sarah Chaney

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WASHINGTON—U.S. manufacturing production fell in September, adding to evidence that slowing global growth and trade frictions are weighing on the economy.

Manufacturing output, the biggest component of industrial production, fell 0.5% in September from a month earlier, the Federal Reserve said Thursday. Production at factories was in part dragged down by a strike at General Motors , but showed broad-based fragility.

Overall industrial production, which includes output at factories, mines and utilities, dropped 0.4% in September and declined 0.1% from a year earlier, the first year-over-year decrease since 2016. Mining production pulled back, helping further drag down demand for manufactured parts.

For some manufacturers, the tight labor market is curtailing growth.

Brett Novosat, president at machine shop L.L. Brown Inc., said revenue is down about 5% to 10% this year as the Enola, Pa., company has struggled to replace workers who have left. Demand for metal parts is still strong, he said, but his 26-person company can't find new workers to meet that demand.

"If I could find three, four, five machinists I would hire them right now," he said. "We are at a limit this year for what we could do with the employees we have."

Coatings maker PPG Industries Inc. said Thursday that it saw a notable weakening in industrial production which sent sales volume in its industrial unit down 6%.

Weakness in the U.S. economy this year has largely been contained to manufacturing and business investment, but signs suggest the slowdown could be spreading. Employers are still hiring, albeit at a slower pace than in 2018. Consumer spending has been solid, but data released earlier this week showed September was a soft month for retailers.

"The risk is that the longer the weakness in the industrial complex remains in place, the greater the risk that this diffusion takes hold across other sectors," said Gregory Daco, chief U.S. economist at Oxford Economics.

On Thursday, the Commerce Department reported home building fell in September. After the figures were released, forecasting firm Macroeconomic Advisers kept its estimate of third-quarter gross domestic product growth at a 1.3% annual rate, down from a 2% annual pace in the second quarter.

Still, the U.S. economy is in growth mode.

"We have a situation where consumers generally are doing pretty well," said Gus Faucher, chief economist at PNC Financial Services Group.

Federal Reserve policy makers cut interest rates this year with the goal of cushioning the economy against a slowdown in manufacturing and global growth. They will meet later this month, and a rate cut is seen on the table.

The U.S. is a service-oriented economy, meaning manufacturing accounts for a small share of gross domestic product. But the manufacturing sector is highly sensitive to swings in global demand, making it an important indicator of broader economic shifts.

One factor that weighed on manufacturing last month will likely be temporary. The GM strike accounted for a 0.7% decline in production of durable, or long-lasting, goods. That included a steep 4.2% decline in the output of autos and related parts.

“With a tentative deal in place, auto production should rebound in November and December as GM looks to make up for lost output,” Mr. Faucher said.

Still, other forces pushing down factory production, including trade tensions and slowing global growth, offer few, if any, signs of abating.

The loss of momentum in U.S. manufacturing aligns with weakening factory output overseas.

The manufacturing output index in Germany, a key export economy in the eurozone, fell to 101.5 in August from 105.8 a year earlier, Organization for Economic Cooperation and Development figures showed.

Surveys of purchasing managers across the globe pointed to deepening declines in factory activity in September. The U.S. wasn’t immune. The Institute for Supply Management’s survey of supply-chain managers showed manufacturing activity contracted for the second straight month to its lowest level since 2009.

—Kate Davidson and Austen Hufford contributed to this article.

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