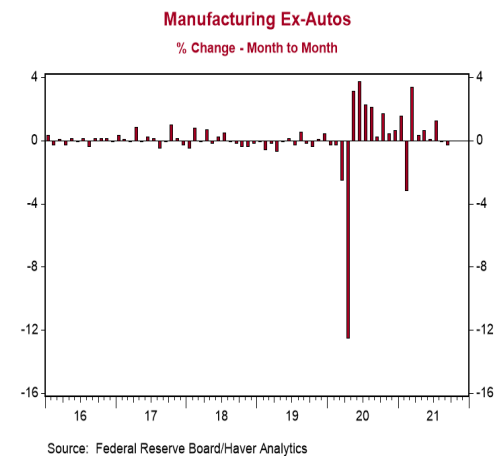
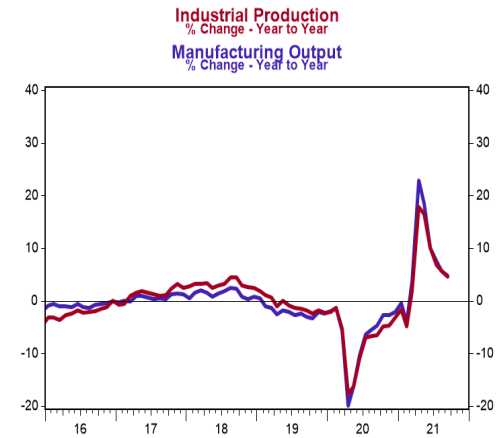


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September Industrial Production / Capacity Utilization

- Industrial production declined 1.3% in September (-1.6% including revisions to prior months), substantially lagging the consensus expected gain of 0.1%. Utilities output fell 3.5% in September, while mining declined 2.3%.
- Manufacturing, which excludes mining/utilities, declined 0.7% in September (-1.0% including revisions to prior months). Auto production fell 7.2%, while non-auto manufacturing dropped 0.3%. Auto production is down 13.7% versus a year ago, while non-auto manufacturing is up 6.3%.
- The production of high-tech equipment rose 0.6% in September and is up 10.7% versus a year ago.
- Overall capacity utilization declined to 75.2% in September from 76.2% in August. Manufacturing capacity utilization dropped to 75.9% in September from 76.5%.



Implications: September was a perfect storm for the US industrial sector, with lingering effects from Hurricane Ida and ongoing supply chain issues coming together to generate an ugly report. The headline index fell 1.3% in September, with every major category contributing to the decline. Meanwhile, the readings on activity in prior months were revised down as well. Overall, the Federal Reserve estimates that roughly half of the decline in industrial production in September can be attributed to the hurricane. Looking at the details, the manufacturing sector led the headline index lower, falling 0.7%. Both auto and non-auto manufacturing posted declines, but the 7.2% drop in the auto sector due to ongoing issues with semi-conductor shortages illustrates the persistence of supply-chain disruptions in certain key sectors. Meanwhile, activity in the mining sector fell 2.3%, though the Federal Reserve made a point of noting that this was entirely due to short-term Hurricane Ida disruptions. Look for the mining sector (think oil rigs in the gulf) to be a tailwind for overall industrial production in the months ahead as activity ramps up in crude oil and natural gas extraction, spurred on by a rebound from Ida-related problems as well as prices that are now at the highest levels since 2014. Finally, utilities output fell 3.5% in September as demand for air conditioning declined after an unseasonably warm August. Looking at things more broadly, today’s decline leaves industrial production 1.3% below its pre-pandemic level and production still has a long way to go to meet current demand. For example, last week’s report on retail sales showed that consumer spending is up 18.9% over that same time period. Ongoing issues with supply chains and labor shortages are hampering a more robust rise in activity, with job openings in the manufacturing sector currently near a record high and more than double pre-pandemic levels. This mismatch between supply and demand is why inflation continues to defy the “transitory” narrative. Look for industrial production to start bouncing back in the months ahead in an effort to close that gap.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-21	Aug-21	Jul-21	3-mo % Ch annualized	6-mo % Ch annualized	Yr to Yr % Change
Industrial Production	-1.3%	-0.1%	1.0%	-1.6%	1.6%	4.6%
Manufacturing	-0.7%	-0.4%	1.7%	2.5%	1.8%	4.8%
Motor Vehicles and Parts	-7.2%	-3.2%	8.7%	-8.8%	-18.0%	-13.7%
Ex Motor Vehicles and Parts	-0.3%	-0.1%	1.2%	3.3%	3.5%	6.3%
Mining	-2.3%	-0.9%	0.7%	-9.4%	-2.5%	6.9%
Utilities	-3.5%	2.6%	-3.1%	-15.2%	6.4%	1.7%
Business Equipment	0.4%	-0.6%	3.6%	14.4%	5.8%	8.2%
Consumer Goods	-1.9%	0.3%	1.1%	-2.0%	-1.2%	1.4%
High-Tech Equipment	0.6%	0.0%	-0.4%	0.9%	5.5%	10.7%
Total Ex. High-Tech Equipment	-1.3%	-0.1%	1.0%	-1.6%	1.6%	4.5%
Cap Utilization (Total)	75.2	76.2	76.3	3-mo Average 75.9	6-mo Average 75.6	12-mo Average 74.7
Manufacturing	75.9	76.5	76.8	76.4	75.9	75.1

Source: Federal Reserve Board