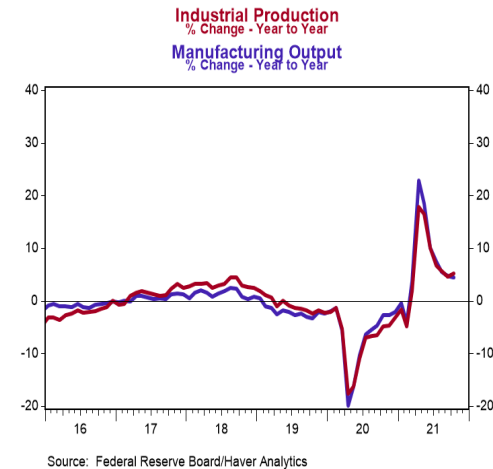


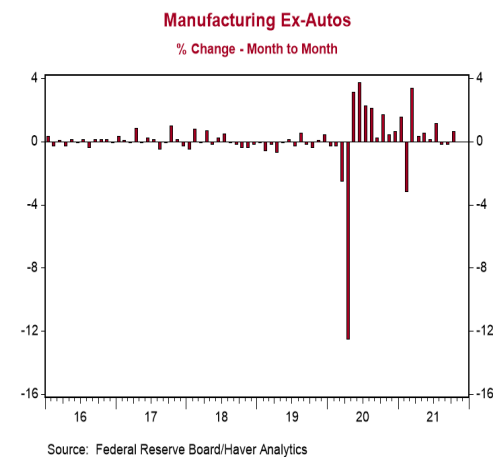
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Bryce Gill – Economist

October Industrial Production / Capacity Utilization

- Industrial production increased 1.6% in October, easily beating the consensus expected gain of 0.9%. Utilities output rose 1.2% in October, while mining increased 4.1%.
- Manufacturing, which excludes mining/utilities, rose 1.2% in October. Auto production jumped 11.0%, while non-auto manufacturing increased 0.6%. Auto production is down 3.7% versus a year ago, while non-auto manufacturing is up 5.0%.
- The production of high-tech equipment rose 1.3% in October and is up 11.0% versus a year ago.
- Overall capacity utilization increased to 76.4% in October from 75.2% in September. Manufacturing capacity utilization rose to 76.7% in October from 75.8%.



Implications: US industrial activity came surging back in October after disruptions from Hurricane Ida and factories rushed to boost output to meet strong demand. The gains were broad-based, with every major category contributing to the rebound. Looking at the details, the manufacturing sector led the headline index higher, rising 1.2%. Both auto and non-auto manufacturing posted strong gains. And, while it's too early to say for sure, the 11.0% increase in the auto sector may be a signal that some supply-chain issues like the lack of semiconductors may be beginning to ease. Meanwhile, activity in the mining sector (think oil rigs in the gulf) rebounded 4.1%. We expect this sector to be a tailwind for overall industrial production in the months ahead as crude oil and natural gas extraction ramps up, spurred by prices that are now at the highest levels since 2014. Looking at things more broadly, today's gains once again put industrial production above pre-pandemic levels, though only by 0.3%. This means production still has a long way to go to meet current demand. For context, this morning's report on retail sales showed that even after adjusting for inflation, "real" retail sales are up 13.5% 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 continue bouncing back in the months ahead. In other recent manufacturing news, the Empire State Index, a measure of New York factory sentiment, soared to +30.9 in November from +19.8 in October. Notably, the index for prices paid by factories for inputs rose to the second highest level on record.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-21	Sep-21	Aug-21	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.6%	-1.3%	0.0%	1.2%	4.9%	5.2%
Manufacturing	1.2%	-0.7%	-0.3%	0.8%	4.6%	4.4%
Motor Vehicles and Parts	11.0%	-7.2%	-3.0%	0.0%	17.6%	-3.7%
Ex Motor Vehicles and Parts	0.6%	-0.2%	-0.2%	0.8%	3.9%	5.0%
Mining	4.1%	-2.3%	-0.6%	4.6%	6.8%	11.9%
Utilities	1.2%	-3.7%	2.9%	1.2%	3.4%	3.0%
Business Equipment	0.1%	-0.3%	-0.6%	-3.3%	7.1%	5.9%
Consumer Goods	1.4%	-1.5%	0.0%	-0.4%	2.4%	2.5%
High-Tech Equipment	1.3%	1.0%	0.6%	12.0%	7.7%	11.0%
Total Ex. High-Tech Equipment	1.6%	-1.3%	0.0%	1.2%	4.7%	5.0%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.4	75.2	76.2	75.9	75.8	75.0
Manufacturing	76.7	75.8	76.4	76.3	76.1	75.3

Source: Federal Reserve Board