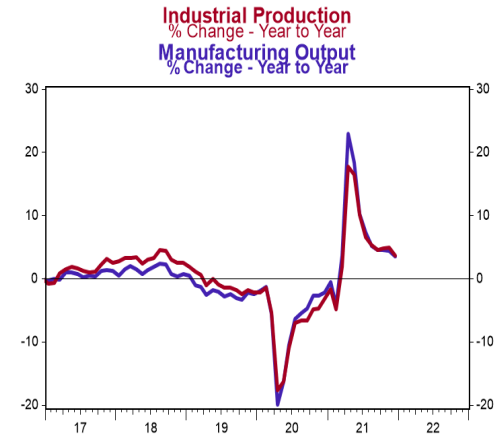


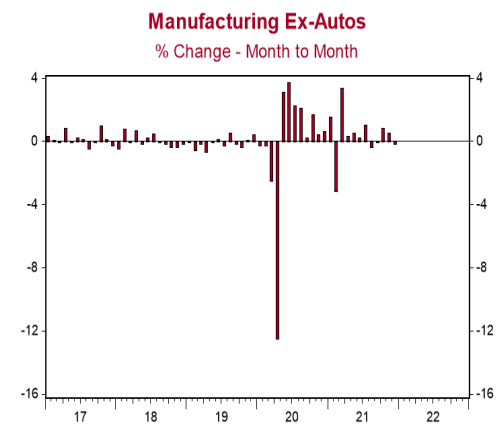
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December Industrial Production / Capacity Utilization

- Industrial production declined 0.1% in December, lagging the consensus expected gain of 0.2%. Utilities output fell 1.5% in December, while mining increased 2.0%.
- Manufacturing, which excludes mining/utilities, declined 0.3% in December. Auto production fell 1.4%, while non-auto manufacturing declined 0.2%. Auto production is down 5.9% versus a year ago, while non-auto manufacturing is up 4.4%.
- The production of high-tech equipment rose 0.3% in December and is up 5.5% versus a year ago.
- Overall capacity utilization declined to 76.5% in December from 76.6% in November. Manufacturing capacity utilization fell to 77.0% in December from 77.2%.



Source: Federal Reserve Board/Haver Analytics



Source: Federal Reserve Board/Haver Analytics

Implications: US industrial activity moderated slightly to end 2021, following gains in October and November as factories came back online after temporary disruptions from Hurricane Ida. The slowdown in activity was broad-based in December, with most major categories posting declines. Looking at the details, the utilities sector led the headline index lower, down 1.5%, due to the warmest December weather in the “lower 48” since at least 1921 (when records started). Meanwhile manufacturing production – both including and excluding autos – dropped in December. A portion of the slowdown can be attributed to rising COVID cases, which made staffing factory floors increasingly difficult. As the Omicron wave passes, expect activity to trend higher once again. Business inventories remain lean, order backlogs are elevated, and demand continues to outstrip supply. As supply chains gradually ease, there is plenty of ground for production to make up just to get things back toward “normal.” The mining sector (think oil rigs in the gulf) was one bright spot in December, rising 2.0% on the month and up at a 30.6% annualized rate in the fourth quarter. We expect this sector to be a tailwind for overall industrial production in the months ahead as activity still remains 6.5% below pre-pandemic levels and has lagged the recovery elsewhere. Looking at things more broadly, today’s decline puts industrial production 0.6% above pre-pandemic levels. 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 10.1% 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 more than double pre-pandemic levels. This mismatch between supply and demand, shows why inflation has accelerated so sharply. Normally easy money takes 18-24 months to show up as inflation. As supply chains heal inflation will moderate, but while supply chain issues are transitory, excess M2 growth is not. Look for industrial production to bounce back in the months ahead.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-21	Nov-21	Oct-21	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.7%	1.2%	7.8%	2.8%	3.7%
Manufacturing	-0.3%	0.6%	1.4%	7.1%	4.1%	3.5%
Motor Vehicles and Parts	-1.4%	1.7%	10.9%	53.2%	17.9%	-5.9%
Ex Motor Vehicles and Parts	-0.2%	0.5%	0.8%	4.5%	3.3%	4.4%
Mining	2.0%	0.5%	4.3%	30.6%	9.0%	11.1%
Utilities	-1.5%	1.9%	-3.4%	-11.5%	-11.5%	-3.4%
Business Equipment	-0.5%	0.4%	0.4%	1.3%	4.1%	3.7%
Consumer Goods	-0.9%	1.3%	0.0%	1.6%	0.6%	-0.2%
High-Tech Equipment	0.3%	0.6%	-0.3%	2.4%	-0.3%	5.5%
Total Ex. High-Tech Equipment	-0.1%	0.7%	1.3%	7.9%	3.0%	3.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.5	76.6	76.1	76.4	76.1	75.4
Manufacturing	77.0	77.2	76.8	77.0	76.6	75.8

Source: Federal Reserve Board