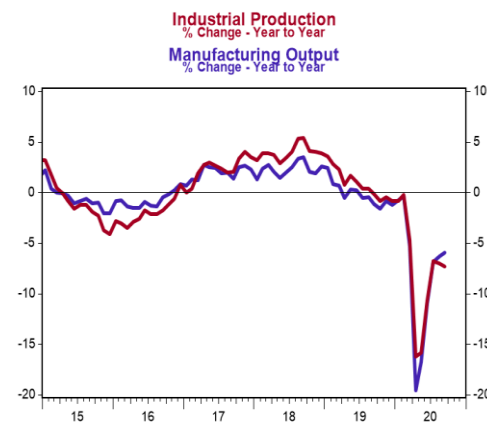


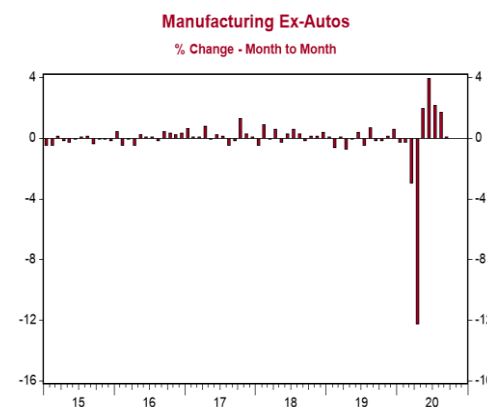
September Industrial Production / Capacity Utilization

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

- Industrial production declined 0.6% in September (+0.1% including revisions to prior months), well below the consensus expected gain of 0.5%. Utilities output fell 5.8% in September, while mining rose 1.7%.
- Manufacturing, which excludes mining/utilities, declined 0.3% in September (+0.3% including revisions to prior months). Auto production declined 4.0%, while non-auto manufacturing was unchanged. Auto production is up 0.4% versus a year ago, while non-auto manufacturing is down 6.5%.
- The production of high-tech equipment increased 0.9% in September and is up 5.9% versus a year ago.
- Overall capacity utilization declined to 71.5% in September from 72.0% in August. Manufacturing capacity utilization fell to 70.5% in September from 70.7%.



Source: Federal Reserve Board/Haver Analytics



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Implications: After rising for four months in a row, it looks like the recovery in industrial production hit a temporary snag in September, falling 0.6%. That said, if you include upward revisions to prior months, industrial production actually eked out a gain of 0.1%. Industrial production has now made up roughly 57% of the decline in activity seen during the height of COVID-19 lockdowns back in March and April, but still has a way to go. We expect a reacceleration in the factory-sector recovery in the months ahead, and here is why. This morning’s report on retail sales showed consumer spending up 4.2% from its February pre-pandemic level, and personal consumption spending on goods is up 5.6% from February to August. The pandemic has clearly shifted consumer preferences from services towards goods, and that represents a strong source of demand for US factory output going forward. Overall, even with September’s weakness the rebound in Q3 was strong, with industrial production surging at a 39.9% annualized rate versus the Q2 average. Looking at the details, the biggest source of weakness in September came from the volatile auto production sector, which fell 4.0% in September. However, some slowdown in this series was expected as it has already posted a full recovery from its April low. Meanwhile, non-auto manufacturing remained unchanged in September and is has still only gained back roughly 57% of the decline in March and April. Another big headwind in September was utilities output, which fell 5.8% as cooler than expected weather reduced air conditioner use. The one bright spot in today’s report was mining, which rose 1.7% and is now up 23.9% from its low in May, signaling the worst is probably over for the beleaguered energy sector. In other recent factory-related news, the Philly Fed Index, a measure of East Coast factory sentiment, surged to +32.3 in October from +15.0 in September. Meanwhile, its counterpart from New York, the Empire State Index, fell to a still solid +10.5 in October from +17.0 in September. Both these readings signal ongoing recoveries and stand in stark contrast to the deeply negative readings early on in the pandemic.

| Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i> | Sep-20 | Aug-20 | Jul-20 | 3-mo % Ch annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|--|--------------|--------|--------|-------------------------|--------------------------|----------------------|
| Industrial Production | -0.6% | 0.4% | 4.2% | 17.0% | -5.7% | -7.3% |
| Manufacturing | -0.3% | 1.2% | 4.2% | 22.2% | -2.6% | -5.9% |
| Motor Vehicles and Parts | -4.0% | -4.3% | 33.0% | 122.5% | 77.8% | 0.4% |
| Ex Motor Vehicles and Parts | 0.0% | 1.7% | 2.2% | 16.4% | -6.9% | -6.5% |
| Mining | 1.7% | -2.4% | 3.7% | 12.5% | -24.1% | -14.7% |
| Utilities | -5.6% | -1.0% | 4.8% | -8.0% | 1.0% | -6.1% |
| Business Equipment | -1.1% | 1.9% | 6.7% | 34.0% | -1.8% | -11.0% |
| Consumer Goods | -1.6% | 0.7% | 4.9% | 16.3% | 5.1% | -2.1% |
| High-Tech Equipment | 0.9% | 1.2% | 2.2% | 18.7% | 8.1% | 5.9% |
| Total Ex. High-Tech Equipment | -0.7% | 0.4% | 4.2% | 16.7% | -5.9% | -7.6% |
| | | | | 3-mo Average | 6-mo Average | 12-mo Average |
| Cap Utilization (Total) | 71.5 | 72.0 | 71.6 | 71.7 | 68.8 | 72.7 |
| Manufacturing | 70.5 | 70.7 | 69.8 | 70.3 | 66.7 | 70.6 |

Source: Federal Reserve Board