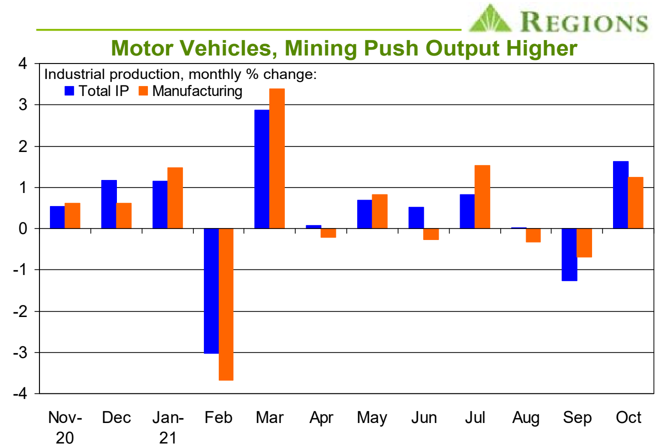
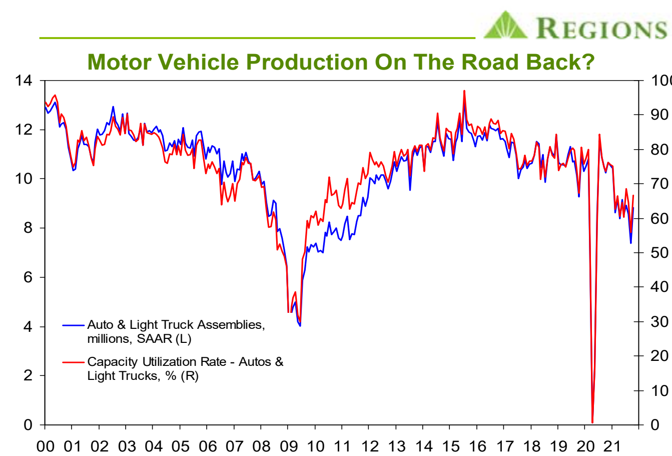
October Industrial Production: Motor Vehicles, Mining Push Output Higher

- Industrial production rose by 1.6 percent in October, with manufacturing output up by 1.2 percent
- The overall capacity utilization rate rose to 76.4 percent, while the utilization rate in manufacturing rose to 76.7 percent
- On a year-over-year basis, total industrial production is up by 5.1 percent as of October, with manufacturing output up by 4.5 percent

Total output amongst the nation's factories, mines, and utilities rose by 1.6 percent in October, matching our forecast and topping the consensus forecast of a 0.8 percent gain. Output rose in each of the three broad sectors, with manufacturing output up 1.2 percent, mining output up 4.1 percent, and utilities output up 1.2 percent. Motor vehicle production increased in October, a hopeful sign that the severe drag from the global chip shortage is beginning to abate, and the jump in mining output reflects a rebound from the effects of Hurricane Ida. The overall capacity utilization rate rose to 76.4 percent in October, matching our above-consensus forecast, while the utilization rate in the factory sector rose to 76.7 percent. To be sure, we are a long way from the supply chain and logistics bottlenecks that have weighed on manufacturing output over the past several months being resolved, but there are signs that these constraints are beginning to lift, and progress will likely come at a faster rate in early-2022. To the extent that does prove to be the case, manufacturers working down considerable backlogs of unfilled orders and restocking badly depleted inventories will be tailwinds for 2022 real GDP growth.

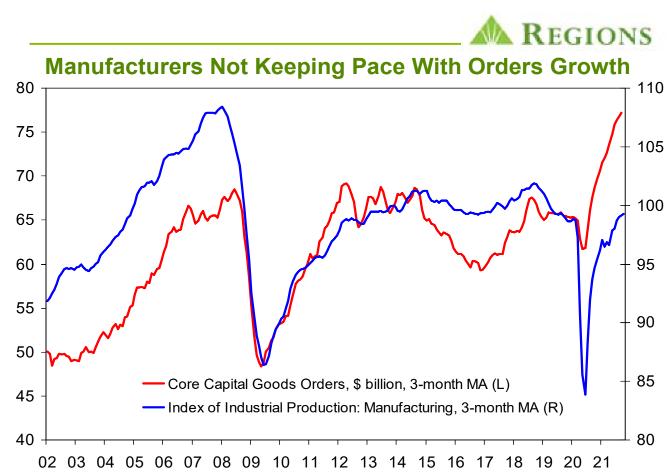


Output of motor vehicles and parts rose by 11.0 percent in October, but within the broad category, motor vehicle assemblies rose by 17.8 percent with parts production up 5.5 percent. Assemblies of autos and light trucks, which aligns with the monthly data on unit sales, was up 19.4 percent in October. To be sure, motor vehicle production can be quite volatile on a month-to-month basis, which suggests we shouldn't make too much of the October data. That said, it is worth noting that the October employment report shows payrolls amongst motor vehicle producers rose by 27,700 jobs during the month, suggesting that October's increase in production has some legs. Keep in mind that, due to the global semiconductor chip shortage, producers have been running at limited capacity over the past several months, and they would not be calling so many workers back were they not confident of being able to sustain higher, even if not normal, levels of output. To the extent vehicle production does continue to expand, it will underpin steady growth in manufacturing output.



Excluding motor vehicles, manufacturing output rose 0.6 percent in October, which more than makes up for the cumulative decline seen over the prior two months. Production of business equipment, a reliable indicator of business investment in equipment & machinery as reported in the GDP data, rose by 0.2 percent. Information processing equipment had been a key driver of growth in business equipment output but has declined in each of the past two months. Still, with businesses continuing to stress enhancing labor productivity in light of difficulty in hiring and rapidly rising labor costs, we expect output of information processing equipment to reverse course and turn higher over coming months.

Mining output rose by 4.1 percent in October, with oil & gas drilling jumping by 9.3 percent. Recall that Hurricane Ida significantly curtailed oil & gas production in the Gulf of Mexico in September, so October's increase reflects activity coming back online. Still, chemicals production has yet to rebound and fell further in October. Warmer than normal weather contributed to the 1.2 percent in utilities output in October.



Though there are signs that supply chain and logistics bottlenecks are beginning to abate, it will be months before things in the manufacturing sector begin to resemble normal, but on the other side await inventory restocking and working down order backlogs. All of this has implications for real GDP growth and for inflation. It also remains to be seen how close both output and utilization in the mining sector come to pre-pandemic norms. There has been less investment in the domestic energy sector than in the years leading up to the pandemic, and with growing emphasis on renewable energy sources, energy investment is likely to be much more targeted going forward. This too will, at least in the near-term, have implications for growth and inflation.

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