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Economics Group

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Industrial Production Growth Leaps in October

Industrial production rose 0.9 percent in October as the factory sector got back on track after Hurricanes Harvey and Irma. The manufacturing output surge is encouraging but overstated by the hurricane rebound.

It's Not About How Many Times You Get Knocked Down

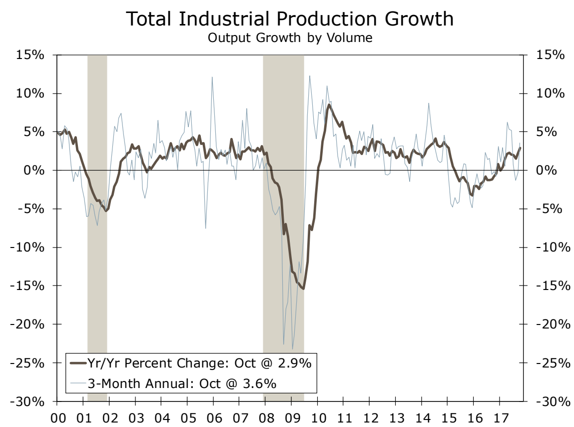
Industrial production jumped 0.9 percent in October, led by a 1.3 percent surge in manufacturing output, which matched the largest monthly increases since 2010. The factory sector has been held back over the past few months as Hurricanes Harvey and Irma knocked some capacity offline that has only now begun to swing back in full force. The Federal Reserve, which produces the industrial production statistics, estimates that, excluding the effects of the hurricanes, output advanced just 0.3 percent for the total index and 0.2 percent for manufacturing.

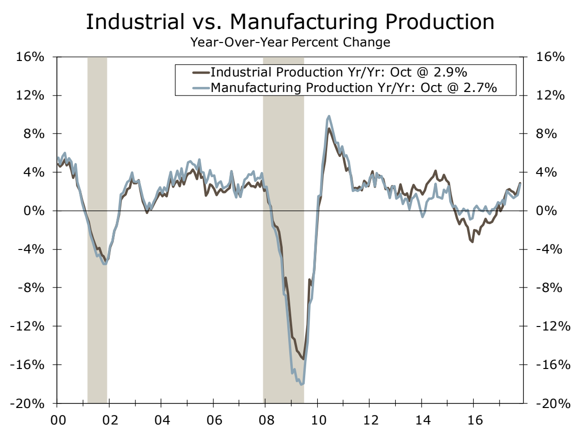
Utilities output helped boost the overall index, rising 2.0 percent over the month. The electricity subcomponent of utilities had declined sharply in August and September, and the October reading showed a sharp bounce back to trend. Mining output fell 1.3 percent, partially due to some short-lived effects from Hurricane Nate. The jump in manufacturing output was largely attributable to hurricane-related sectors, including a 5.8 percent increase in chemicals output, a 4.0 percent jump in petroleum & coal products and a 1.0 percent increase in motor vehicle & parts production.

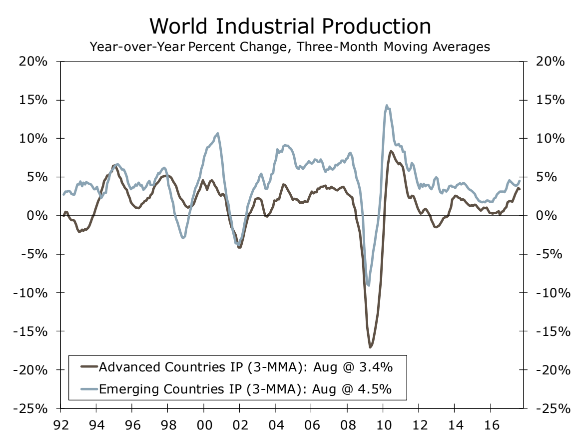
Noisy Data Masks Underlying Improvement

Although the output data have been noisy recently, the trend remains broadly upward. Industrial production and manufacturing output are up 2.9 percent and 2.7 percent year over year, respectively, a clear improvement from the past couple years. Data on the factory sector continue to be broadly encouraging. The ISM manufacturing index is hovering near its highest level since early in the expansion, and core capital goods orders suggest solid spending by businesses on equipment. Output in business equipment from today's industrial production report showed a 0.5 percent gain following a 1.5 percent reading in September. Against this stronger backdrop, employers have responded by adding 138,000 new jobs in the manufacturing sector through the first 10 months of 2017. These job gains are in contrast to the 52,000 added over the entire 2015-2016 period.

The dollar has weakened from its late 2016/early 2017 high, and the broad-based pick-up in global economic growth has created a rising tide for the world's economies. Net exports have been additive to real U.S. GDP growth for three consecutive quarters, the first time this has occurred since Q3-2012 through Q1-2013. As illustrated in the bottom chart, the improvement in industrial production in the United States has coincided with stronger industrial production growth in other advanced economies and developing economies. With encouraging fundamentals in place, we expect the slow but steady improvement in the U.S. factory sector to continue in the coming months.







Source: Federal Reserve Board, IHS Global Insight and Wells Fargo Securities

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