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Economics Group

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Manufacturing Output Posts Scant Gain in September

Industrial production rose 0.6 percent thanks to an outsized boost from utilities, which shot up 4.4 percent in September. Mining output increased 0.2 percent and manufacturing production rose a scant 0.1 percent.

Utilities Compensating for Weakness in Other Areas

Utilities output comprises a little less than 10 percent of all industrial production and while it generally tracks manufacturing output, it can be moved marginally by the weather. After five straight monthly declines in utility output due to mild weather this spring and summer, some payback was to be expected. The 4.4 percent surge in September was the largest monthly move for this series since March of this year.

Manufacturing output is the biggest toad in the puddle for industrial production comprising more than three quarters of all output. The 0.1 percent gain here is disappointing.

Had it not been for a 2.0 percent increase in motor vehicle and parts production, manufacturing output would have been unchanged from August levels. We learned in last week's durable goods report that September motor vehicle and parts orders fell during the month, which causes some apprehension about how the factory sector would hold up without a boost from the auto sector. Production of computers and electronics fell 0.5 percent in September.

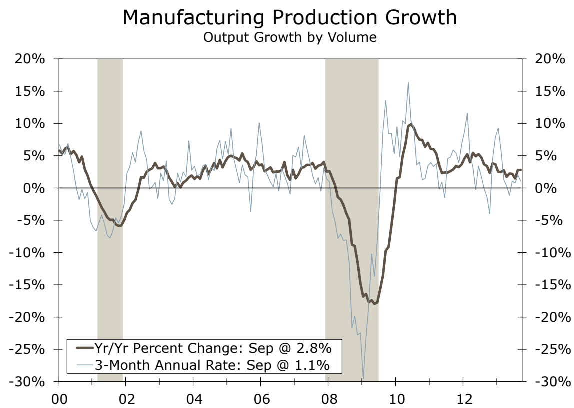
Capacity utilization rose to 78.3 percent, which marks the highest level since 2007. That said, this is still not a high level for capacity utilization, in fact it is still below average. In the 20 years that preceded the recession (1987-2007) capacity utilization averaged 80.8 percent. The bottom-line here is that even though utilization is at a 6-year high, it is still not yet at a level that we would consider to be inflationary.

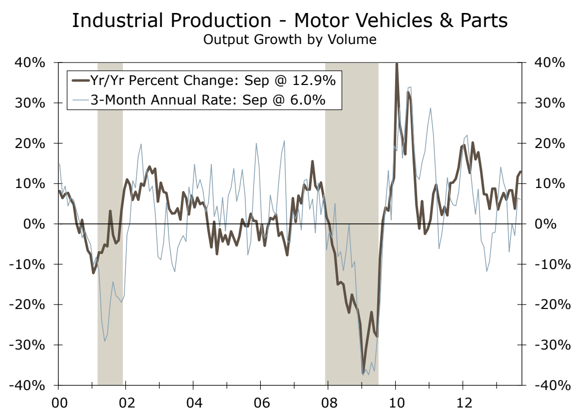
'Neath the Cover of October Skies

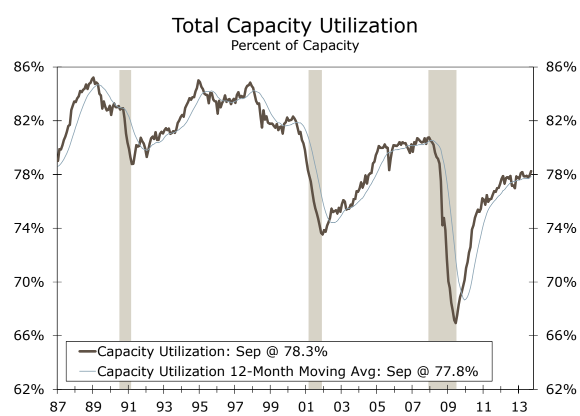
Today's report provides output data for the month of September, so there is probably little if anything that can be pinned on the shutdown in Washington which did not begin until October 1.

Starting with the next month's report, we can expect to see the extent to which inactivity in Washington is impacting the outlook. As we wrote immediately following the continuing resolution that ended the impasse ("*Shutdown Showdown Finale*," Silvia & Brown, October 21, 2013), the extreme political uncertainty will continue to weigh on business confidence and negatively impact economic growth in the fourth quarter of 2013 and the first quarter of 2014.

One early indication of how activity in the factory sector held up during the shutdown will come at the end of this week when the ISM manufacturing index for October hits the wire on Friday morning. After rising to its highest level since 2011 in September, we suspect there is plenty of risk to the downside for this key purchasing manager survey.







Source: Federal Reserve Board and Wells Fargo Securities, LLC

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