Industrial Production Jumped in September to Close to Record High

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Headlines

- **Industrial production rose 0.7% in September. Much of the gain came from hot weather, but underlying growth is solid.**
- **Strong tech demand is boosting the industrial sector.**
- **Mining output is up with high energy prices.**
- **The capacity utilization rate rose in September, but capacity constraints are not a major source of inflation.**
- **Industrial production is just below its all-time high in 2018. Although the September gain is likely to reverse in October, industrial production should hit a new record high in the months ahead.**

Details

Industrial production rose 0.7% in September from August, according to data from the Federal Reserve. This was the largest increase since April. **However, much of the increase came from a 3.5% jump in utilities output due to hotter-than-usual weather.** There was a 0.3% increase in manufacturing output, while mining production rose 0.2%. Industrial production rose 0.1% in August, revised up from no change.

On a year-ago basis total industrial production was up 2.2%, including a 1.1% increase in manufacturing output. Utilities output was up 8.7%, with mining output up 2.8%.

The capacity utilization rate rose to 76.9% in September from 76.4% in August. This is the highest utilization rate since 2023, although it is still well below its pre-pandemic level of around 78%. The manufacturing utilization rate rose to 75.9% in September from 75.8% in August. Both of those rates are well below the 80% rates that indicate capacity constraints are contributing to inflationary pressures. **Strong demand for tech is driving some of the current inflation in the U.S., but much more is coming from tariffs and high energy prices.**

The industrial side of the U.S. economy has gradually improved since early 2025. After rebounding following the pandemic, industrial production moved gradually lower in 2023 and 2024. Solid economy growth, including strong demand for tech products with the AI buildout; some reshoring in the wake of tariffs; and higher energy production following the surge in oil prices with the U.S. conflict with Iran have all contributed to the rebound in the industrial sector. **Overall industrial production in September was just 0.1% below its all-time high in**

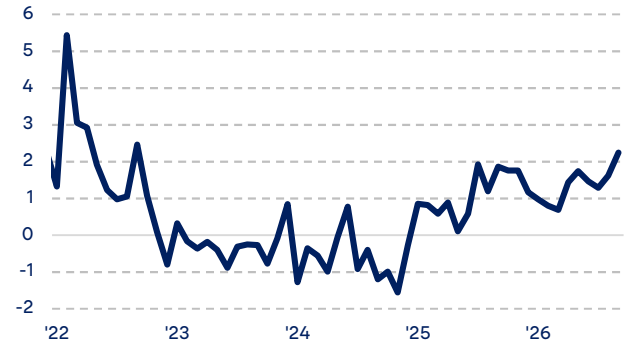
2018, and both utilities and mining output hit record highs in September. The weather drove much of the gain in utilities in September, but underlying growth is coming from strong demand, including from data centers. Mining output is up almost 4% since March of this year as domestic energy production has increased in response to higher prices following the conflict with Iran. But manufacturing production is still down more than 3% from its level in late 2018, and about 9% below its all-time high in late 2007, even though it is up from late 2024. Output of business equipment was up almost 7% in September from a year earlier due to strong tech demand.

The large jump in utilities output in September was a weather-driven one-off, and is likely to reverse in October. **But the trend is clear: the industrial side of the economy is growing thanks to strong tech demand, higher demand for electricity, and rising energy production due to the price surge this year.** Industrial production should continue to gradually increase into 2027 as tech demand remains solid, but the surge in energy production in 2026 could reverse if a resolution to the conflict with Iran leads to price declines.

Figure 1: Industrial Production (m/m % chg)

Sources Federal Reserve, PNC

Figure 2: Industrial Production (y/y % chg)



Sources: Federal Reserve, PNC

Figure 3: Capacity Utilization (Index %)

Sources: Federal Reserve, PNC

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