Industrial Production Posts Strong Gain in January

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Headlines

- **Industrial production expanded a strong 0.7% in January, more than double the consensus estimate of 0.3%.**
- **Manufacturing output rose 0.6%** with durable goods output up 0.8% and nondurable goods output up a more modest 0.4%.
- **Total industrial production is 2.3% higher year-on-year in January, up from 1.3% in December.**
- **Capacity utilization increased to 76.2% – the highest since July 2025.**
- Lower interest rates should allow the manufacturing sector to continue improving this year.
- PNC expects the FOMC to lower the fed funds rate by 25 basis points in July and another 25 basis points in September.

Details

Total industrial production climbed 0.7% month-on-month in January, more than double the consensus estimate for a 0.3% advance. That is the third straight monthly gain following a 0.4% decline in October and the strongest monthly increase since February 2025. The strong monthly upturn pushed the year earlier growth rate up to 2.3% from 1.3% in December (Figure 1).

Manufacturing output – which is around 75% of total industrial production – rose 0.6% in January, the largest jump since February 2025. Manufacturing output is up 2.4% from a year ago. The **durable manufacturing index** surged 0.8% with notable contributions of at least 1% in nonmetallic mineral products, machinery, computer and electronic products, miscellaneous durable goods, and motor vehicles and parts, which increased for the first time since August 2025. Durable manufacturing output is 3.7% higher than a year ago.

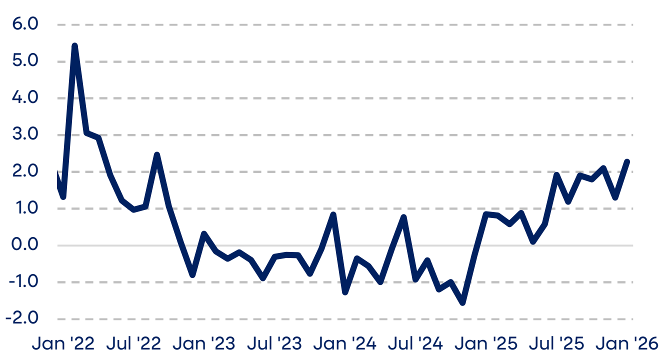
Nondurable manufacturing output climbed 0.4% with increases in the production of paper, printing and support, chemicals, and plastics and rubber products more than offsetting decreases in the other industries. Nondurable manufacturing output is up 1.3% year-over-year.

Mining output slipped 0.2% in January following a 0.9% drop in December but is 2.5% above its year earlier level, while **utilities output** climbed 2.1% in January after rising 3.0% in December, buoyed by colder than normal weather across some parts of the country. Utilities output is up 1.1% year-on-year.

The solid month gain in output pushed the capacity utilization rate up to 76.2% – the highest since July 2025 but 3.2 percentage points below its long-run average from 1972-2024 (Figure 2). The capacity utilization rate for manufacturing increased 0.4 percentage point to 75.6%, while the capacity utilization rate for mining fell 0.1 percentage point to 84.4% and the operating rate for utilities increased 1.3 percentage points to 72.9%.

The manufacturing sector was battered by high interest rates but is gradually improving. Industrial production has posted three consecutive monthly increases in output and output is now 1.0% above its February 2020 level. Lower interest rates this year should allow the manufacturing sector to continue improving. PNC's baseline forecast is for the FOMC to cut the fed funds rate by 25 basis points twice this year in July and September, lowering the fed funds rate to a range of 3.00%-3.25%.

Figure 1: Industrial Production Growth (y/y % chg.)



Source: Federal Reserve

Figure 2: Capacity Utilization (Index %)

Source: Federal Reserve

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