Economic Update

November 16, 2023

Industrial Production Fell in October with UAW Strike; Set to Rebound

- **Industrial production fell 0.6% in October because of the UAW strike. It will recover in November.**
- **High interest rates are a drag on output. Industrial production will continue to fall in the near term.**
- **The capacity utilization rate also fell in October due to the strike. A decline in the capacity utilization rate is contributing to slower inflation.**

Industrial production fell 0.6% in October from September. Manufacturing output fell 0.7% over the month, led by a 10% decline drop for motor vehicles and parts due to the UAW strike. These were the first declines in overall output and manufacturing output since June. Industrial production rose 0.1% in September (revised lower from a 0.3% increase) and by less than 0.1% in August. Utilities output fell 1.6% in October because of warm weather, while mining output rose 0.4%.

Industrial production should bounce back in November with an end to the UAW strike and an increase in auto output. That being said, overall industrial production has been flat over the past year, while manufacturing output has fallen slightly, even after accounting for the strike. Higher interest rates are weighing on demand for consumer durable and business investment goods. Production of housing-related materials has fallen with higher mortgage rates. Additionally, consumer goods spending surged in the aftermath of the pandemic, thanks in large part to massive federal government aid, but has stabilized since then as households have been rotating their spending toward services.

Mining has been one source of growth in industrial production over the past couple of years, as higher energy prices have encouraged exploration and development. Mining output is still below its pre-pandemic level, however, and growth has slowed in 2023.

Industrial production is set to decline in the near term as the drag from higher interest rates intensifies. Output will fall further in 2024 if PNC's forecast for a mild recession starting mid next year takes hold.

The capacity utilization rate fell in October to 78.9%, from 79.5% in September; the manufacturing rate fell to 77.2% from 77.8% because of the UAW strike. The capacity utilization rate should also rebound in November with the end to the strike. Both the overall and manufacturing capacity utilization rates have been falling for about a year, contributing to the ongoing gradual slowing in inflation.

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