Production Data

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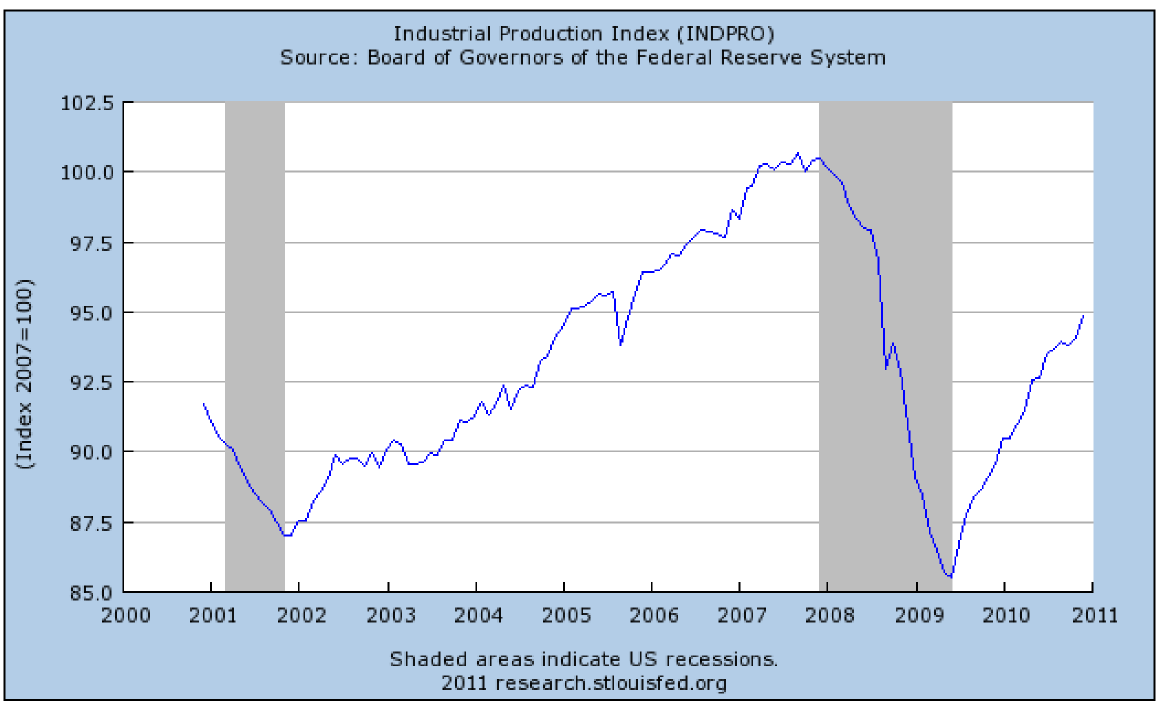
Latest Update: January 2011

Overall Impressions

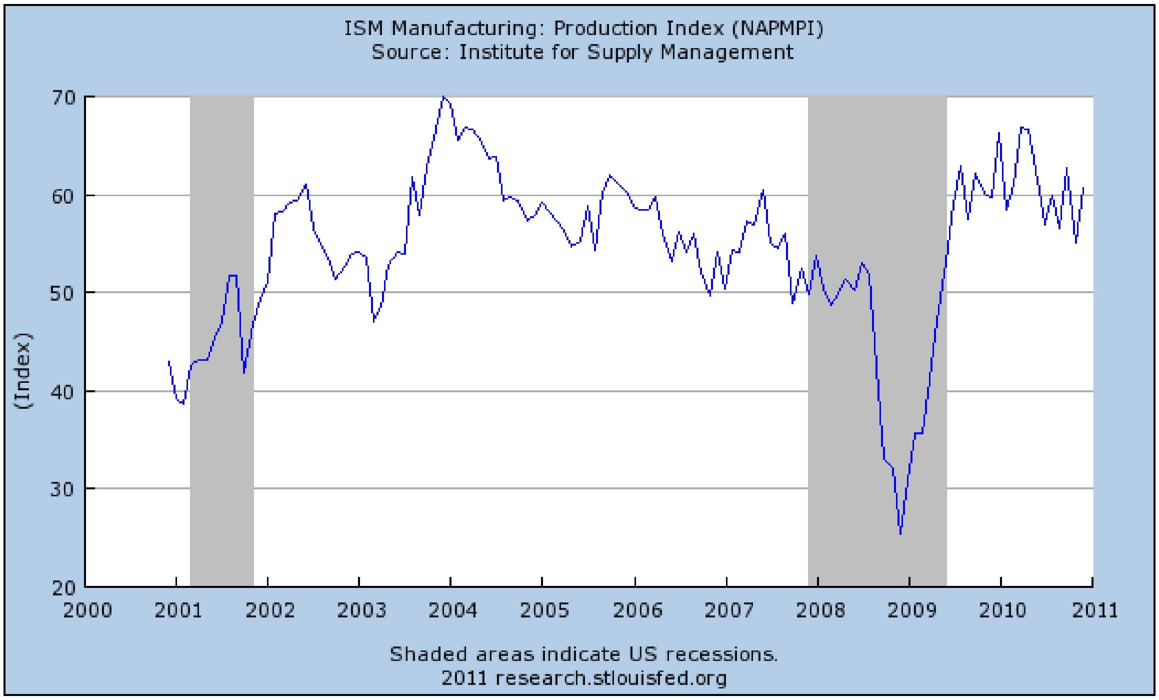
Industrial production has made dramatic expansions throughout 2010, after plunging drastically since 2008. New orders have also been on the rise, and inventories are returning to something approaching normal levels. Capacity utilization is still below peak levels, although the utilization rate has sharply rebounded since the recession. While significant slack still exists within manufacturing and production sectors, the progress in industrial output has been impressive.

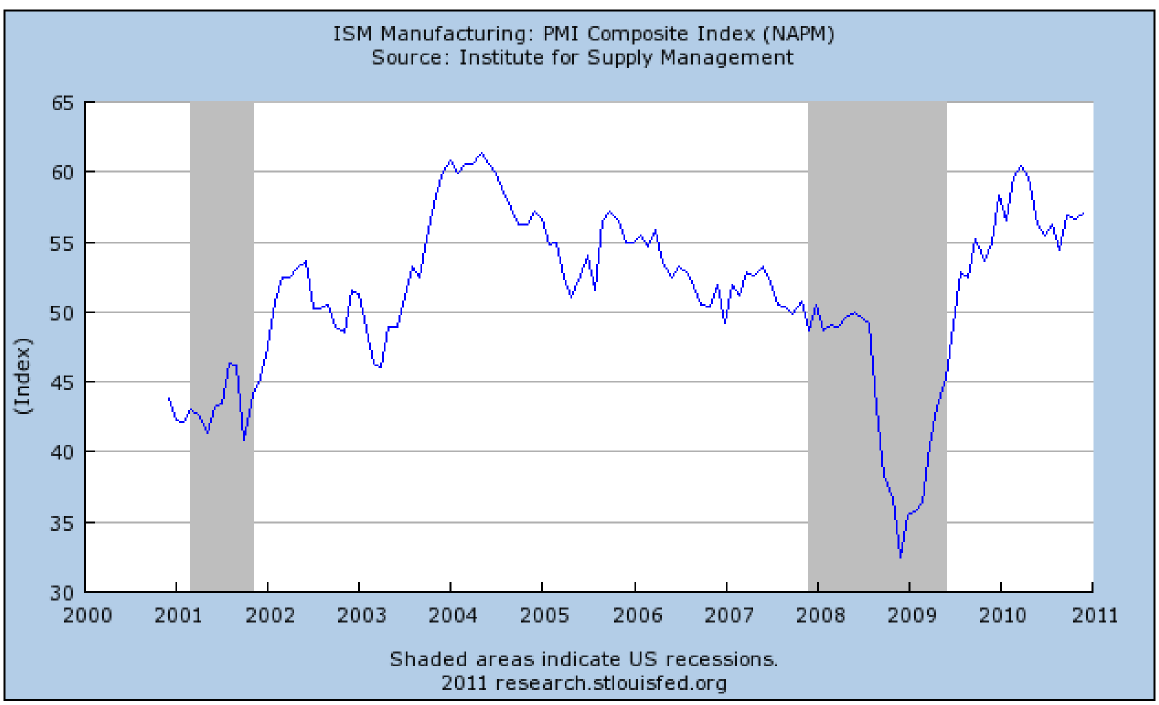
Industrial Production

This is an important indicator of economic activity, as industrial production has typically captured a majority of the fluctuations in total output even though the industrial sector is a small part of the aggregate economy. Industrial production continues to improve after the major loss of activity during the recession.



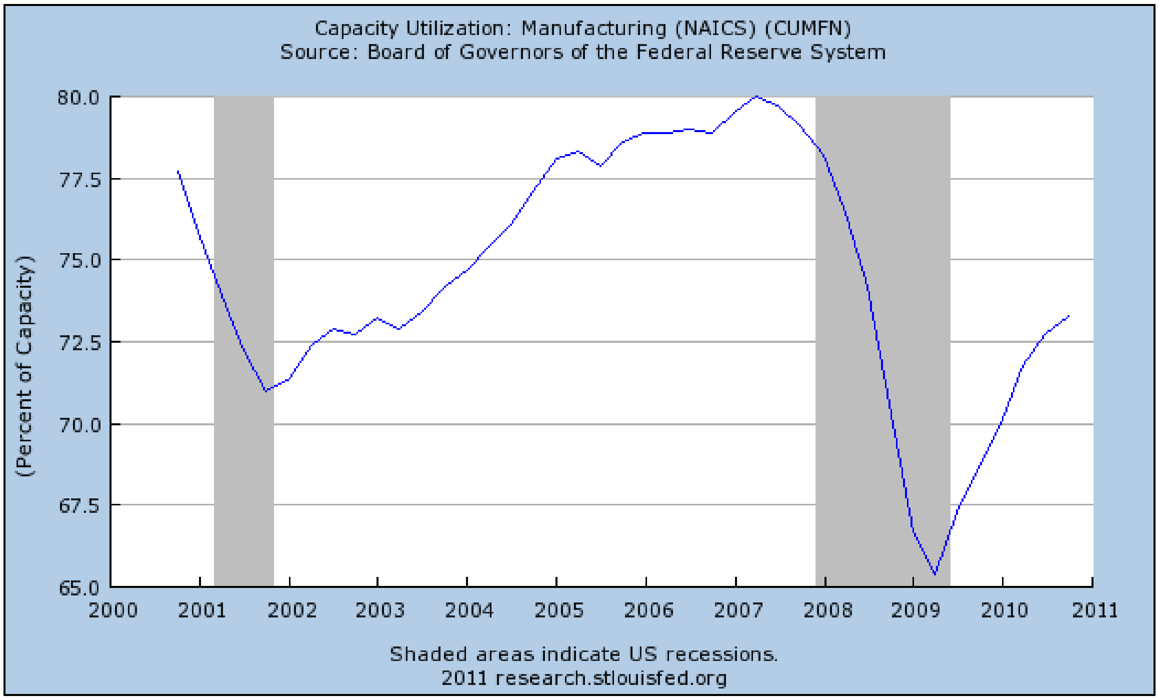
The ISM production indexes also have improved substantially, although both the overall Production Index as well as the PMI Composite Index has leveled off recently. Anything above 50.0 indicates expansion, anything below 50 suggests contraction.





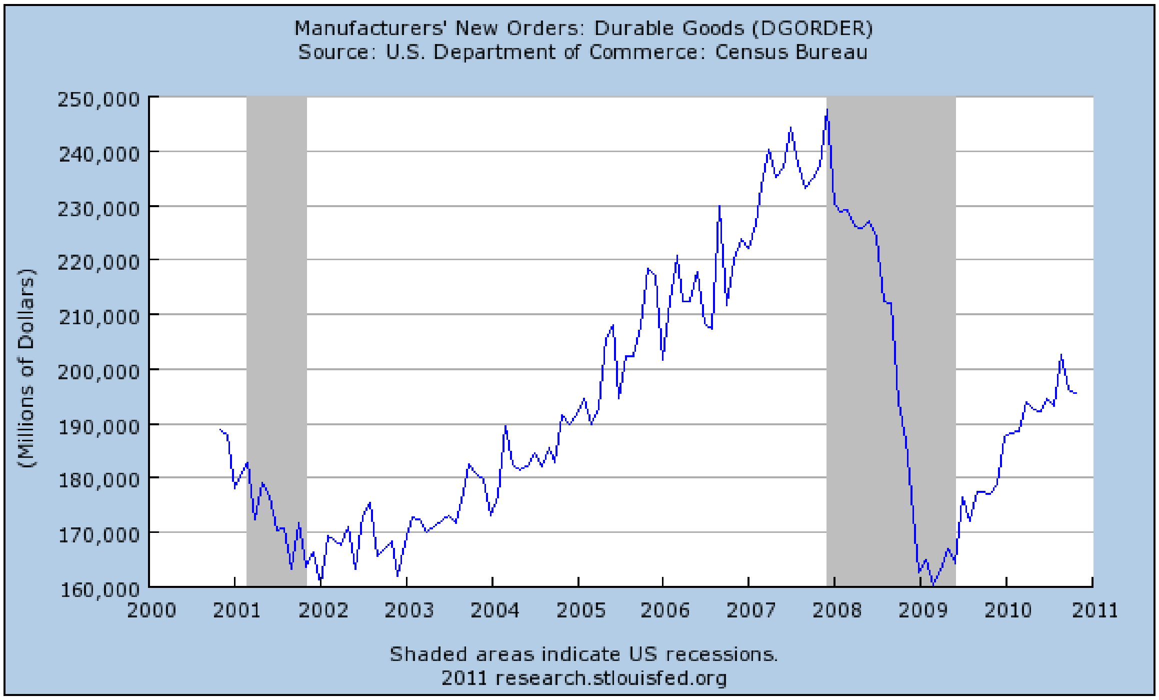
Industrial Production, Capacity Utilization

Capacity utilization has rebounded since last 2009, although it is still far off its recent peak in 2007. The latest figures are at 73% capacity. This series is an indicator of current activity as well, and sometimes is considered something of a predictor of future pricing pressures. The current level of under-utilization shows that significant slack is still existing in industrial processes.

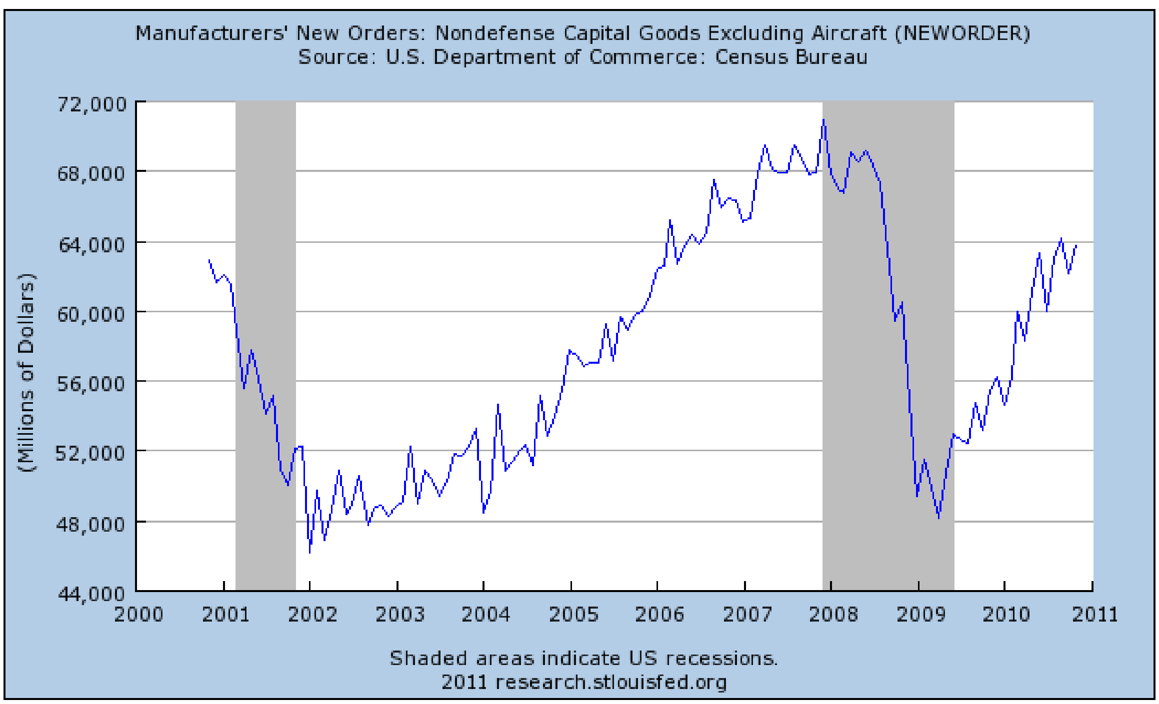


Manufacturers' New Orders

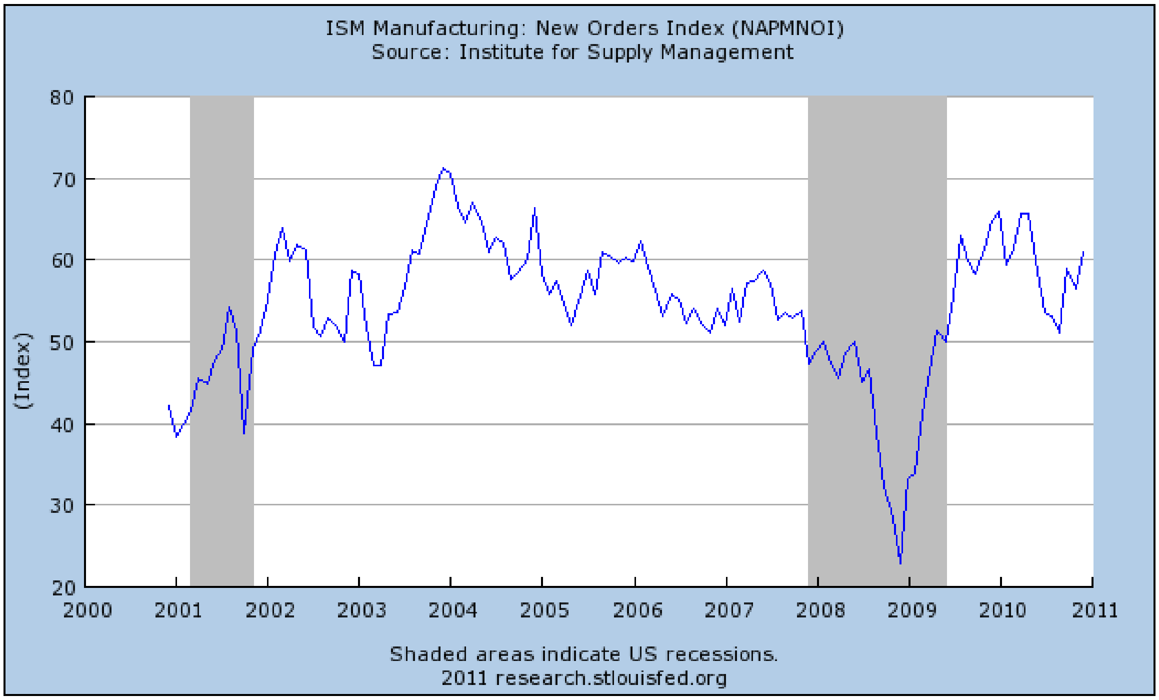
New orders lead production because they directly affect the level of both unfilled orders and inventories that firms will monitor when making production decisions. Thus, new orders data may be a good indication that production is about to shift in some manner. Durable goods data has been progressing nicely.



Nondefense capital goods monitors only the core manufacturing orders, and is the producer's counterpart to the consumer's new orders. This series has also been advancing since 2009.

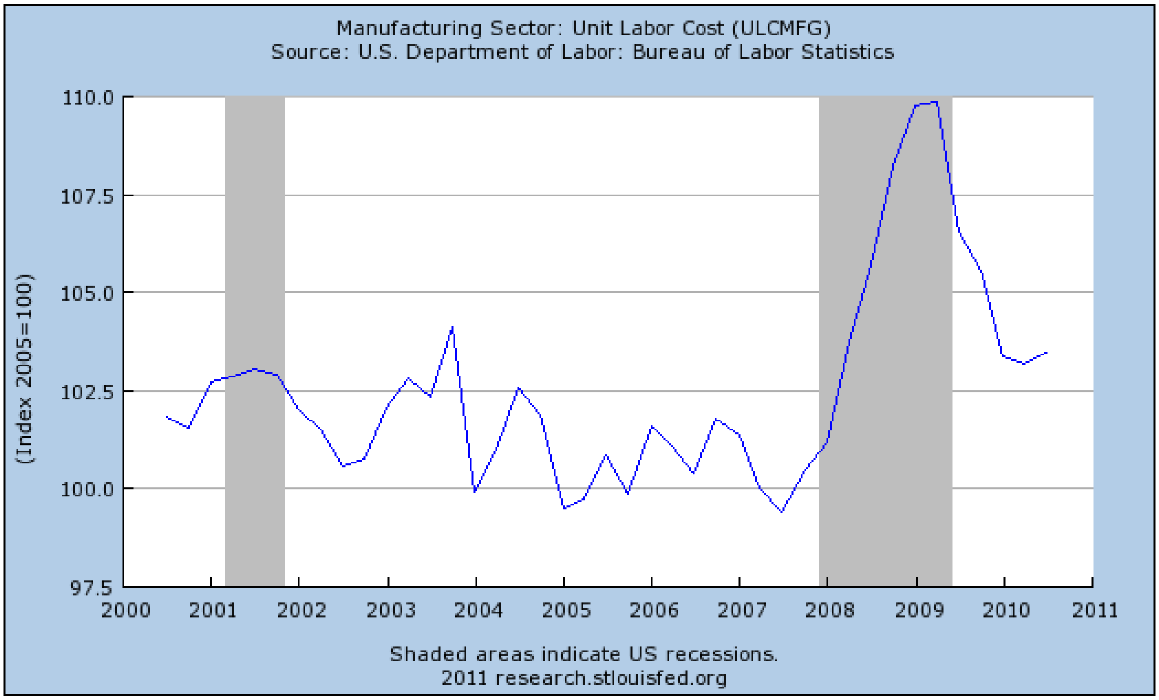


Overall manufacturing orders have also been increasing from the depths of the recession, possibly stabilizing in recent time frames.



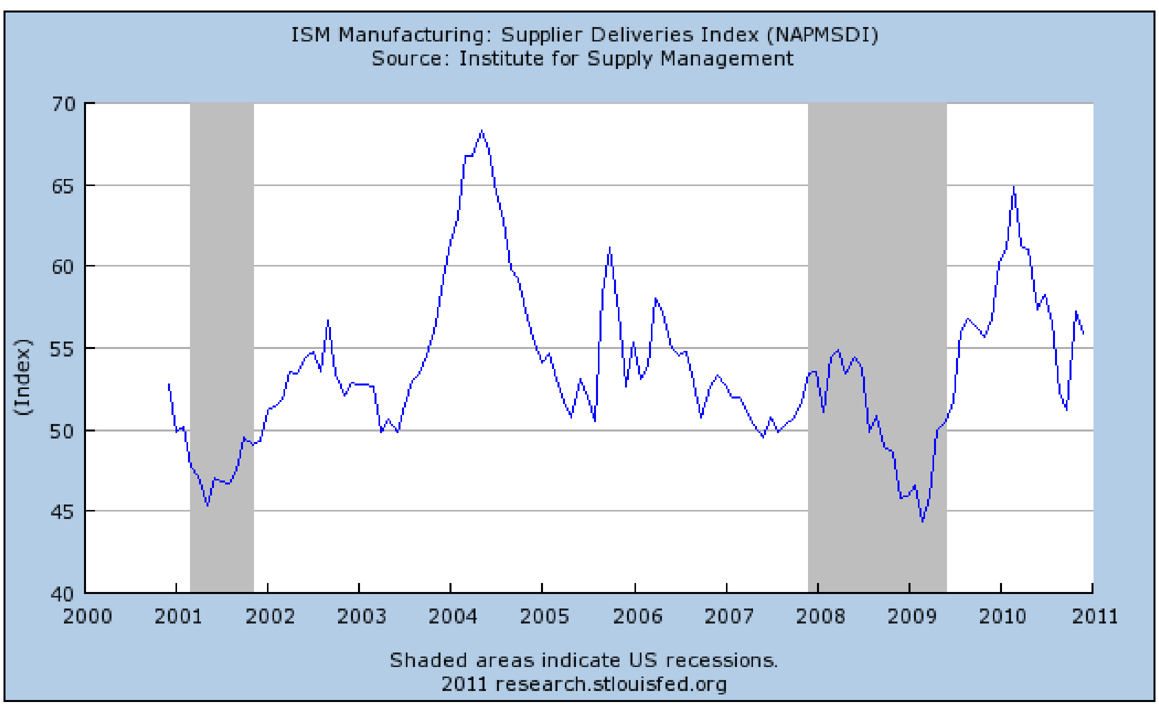
Unit Labor Cost in Manufacturing

This data series measures the rate of change in unit labor cost, and the Conference Board version of this series is considered a lagging indicator. Notice how unit labor cost has been declining until very recently, but also that the current cost is still above index values throughout the last decade.



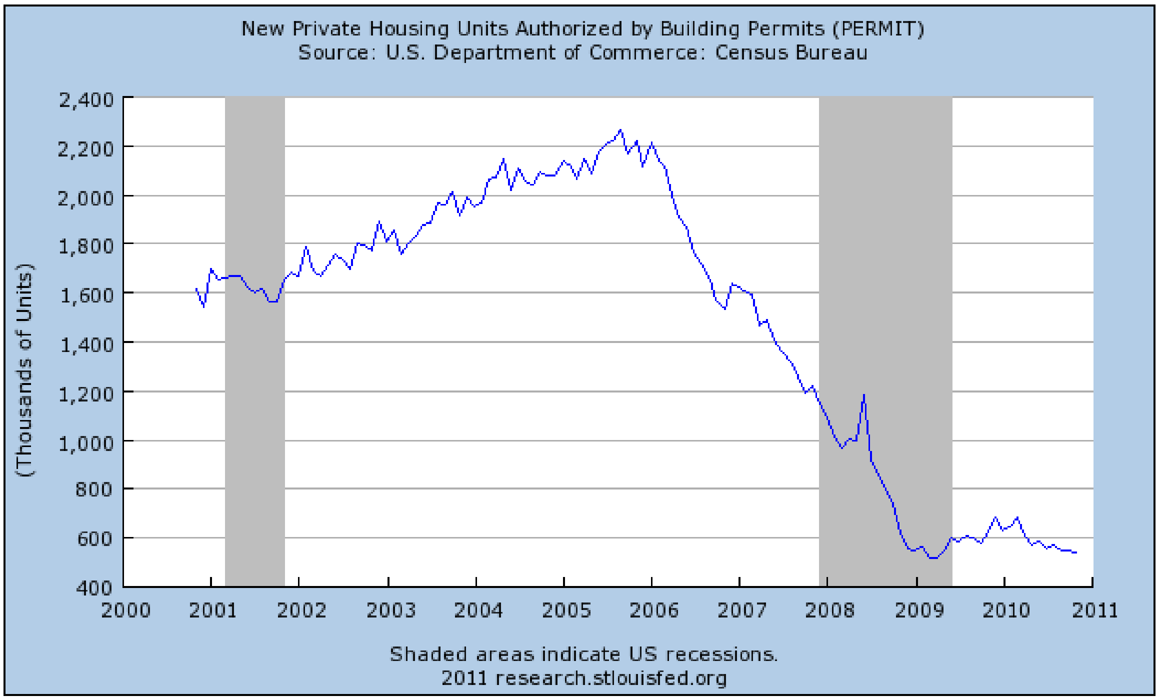
Index of Manufacturing Supplier Deliveries

The series is an early indication of a supply and demand changes in the economy. Slowdowns in deliveries are associated with increases in demand for manufacturing supplies, and tend to lead the cycle. Note that index values have been declining.



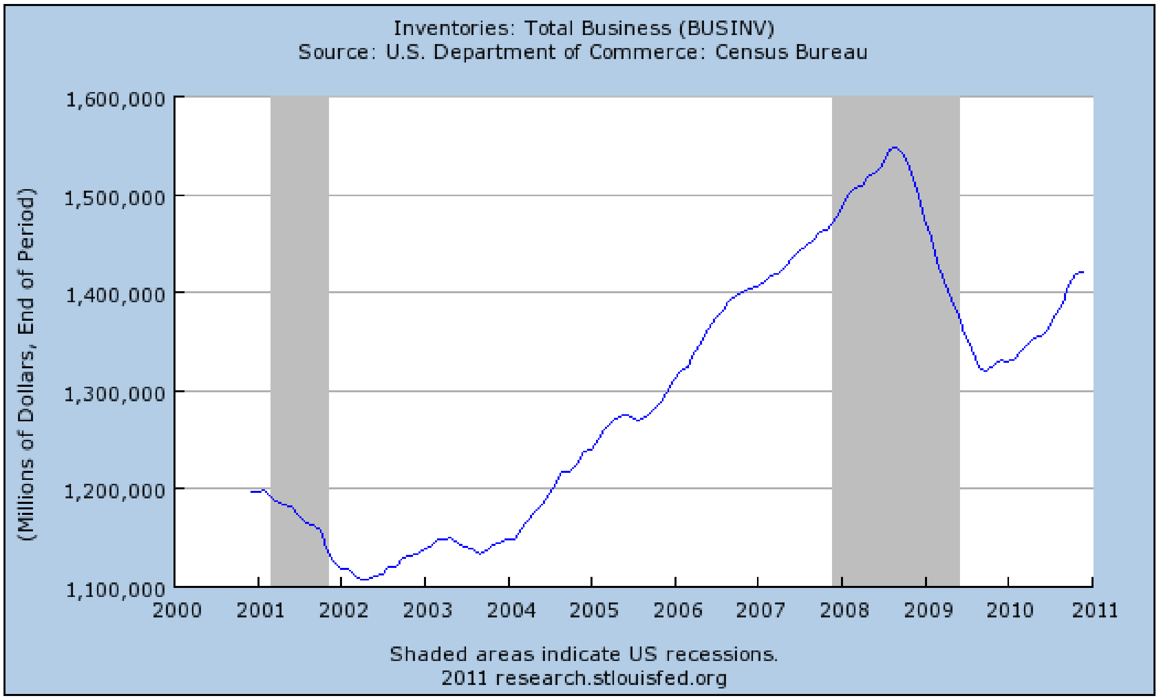
Building permits

The series indicates future construction activity of new private housing units, and leads other types of economic production. Permits continue to be at depressed levels, around 27% of peak levels.



Inventories

Total business inventories continue to expand, after dramatic depletions occurred during the recession.



Inventories normally increase when the economy slows and sales declines. The inventory to sales ratio often peaks in the middle of a recession. It also declines at the beginning of an expansion, as firms will initially use excess inventories to meet sales demands prior to adding to inventories. Notice that the series peaked in 2009 and has been declining since that time.