

## US manufacturers battle back

US manufacturing rebounded sharply, led by the volatile vehicle sub-component. Supply chains strains, labour shortages and higher costs continue to weigh on the sector, but demand remains strong and rising pricing power suggests a decent outlook for corporate profits



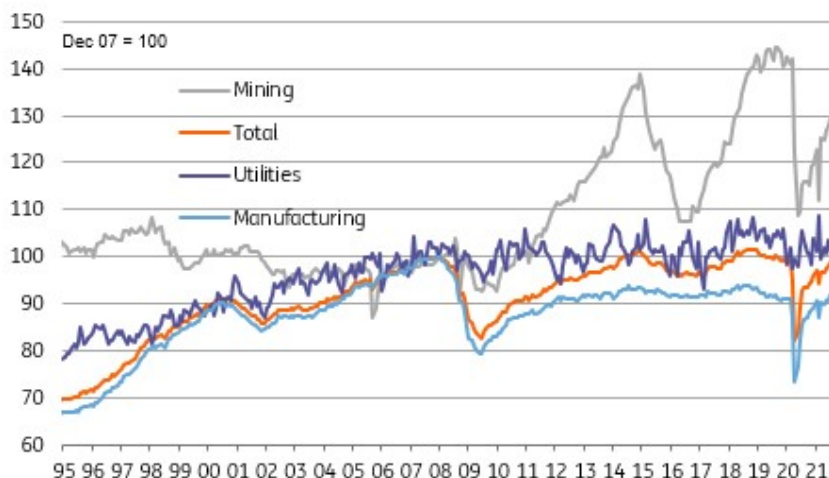
### Autos rebound following chip-related woes

A much better-than-hoped industrial production release goes some way to offset the disappointment of the retail sales report. Total industrial output rose 0.9% month-on-month in July versus market expectations of a 0.4% gain, although there was a slight downward revision to June's growth (to 0.2% from the initial 0.4% published figure).

The really encouraging story is that manufacturing surged 1.4% after a 0.3% contraction in June and means that all of the pandemic shutdown losses in output have been fully recovered. In fact, manufacturing output is 0.6 percentage points above the December 2019 level.

There were broad-based gains with auto output surging by 11.2% MoM after a period of sustained, chip-shortage-related weakness. Electrical equipment output rose 2.3% and aerospace up 1.9% were the other standouts. The only falls were experienced by apparel (-0.2%) and fabricated metals (-0.4%).

## Industrial production levels versus December 2007 peak



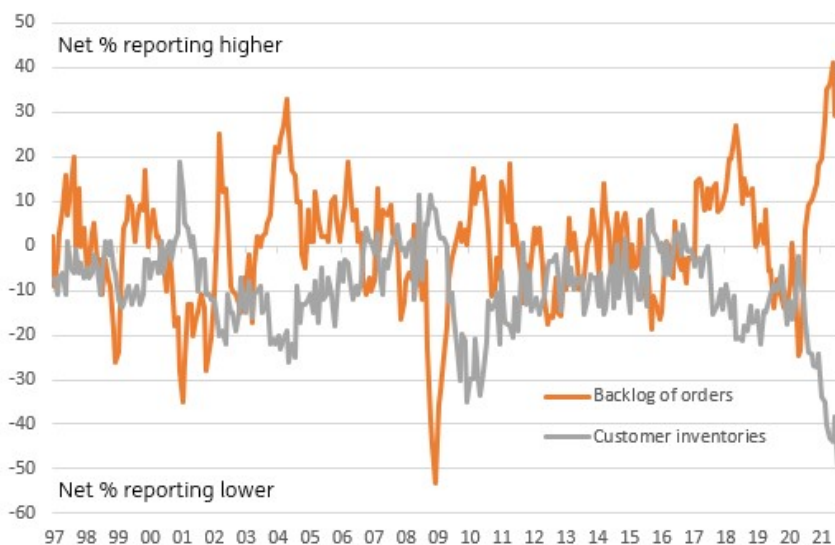
Source: Macrobond, ING

## Pricing power boosts profit outlook

Supply chains issues, labour shortages and the legacy of higher commodity prices and shipping costs will continue to act as a drag on overall manufacturing, so to post such a decent rebound is encouraging news. Moreover, while costs have certainly gone up, there is growing evidence that manufacturers are able to pass them onto customers given strong order books and the knowledge that their customers have record low inventory levels. While good news for profitability, it is a key factor that could keep inflation higher for longer.

Outside of manufacturing utilities output fell 2.1% on more seasonal weather after June's heatwave-related surge while mining output rose 1.2% with oil and gas well drilling up 6.1%.

## ISM report - order backlogs continue to grow while customer inventories are at record lows



Source: Macrobond, ING

## Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).