

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



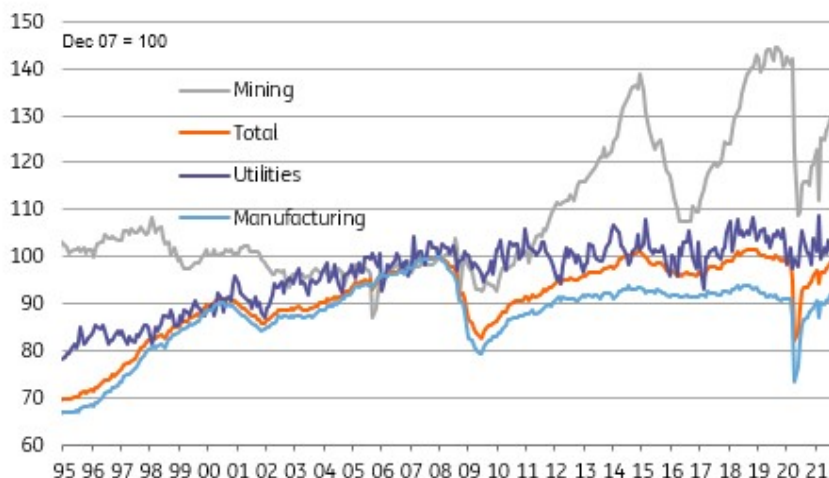
Autos rebound following chip-related woes

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



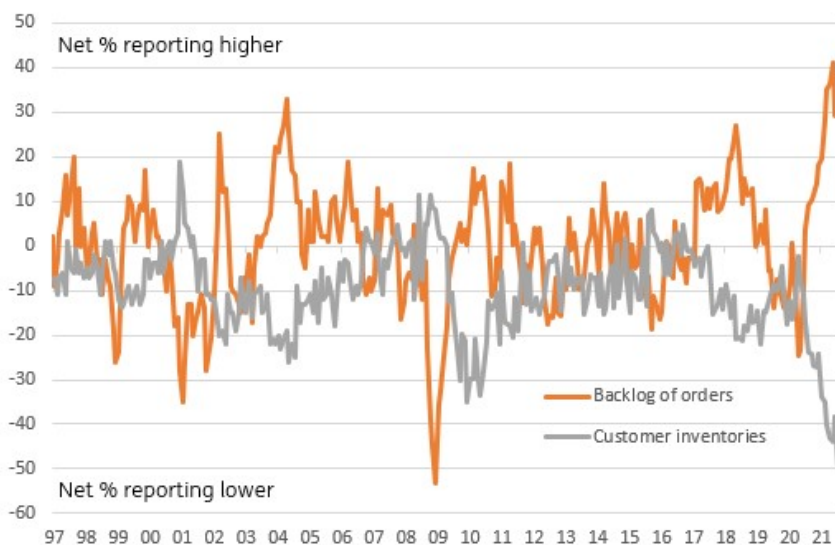
Source: Macrobond, ING

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

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