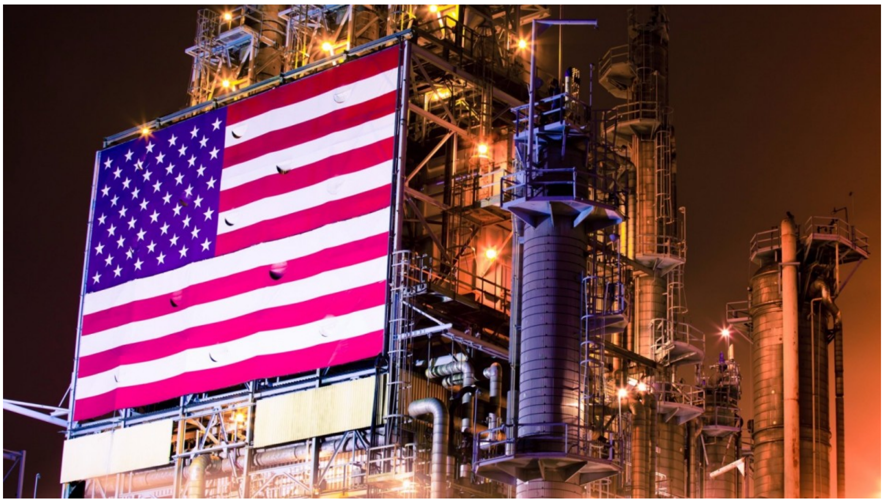
US manufacturing rebound isn't sustainable

US manufacturing output bounced more than expected in August, but the combination of weaker global growth, a strong dollar and lingering trade tensions are huge headwinds that will result in weaker activity through the rest of the year



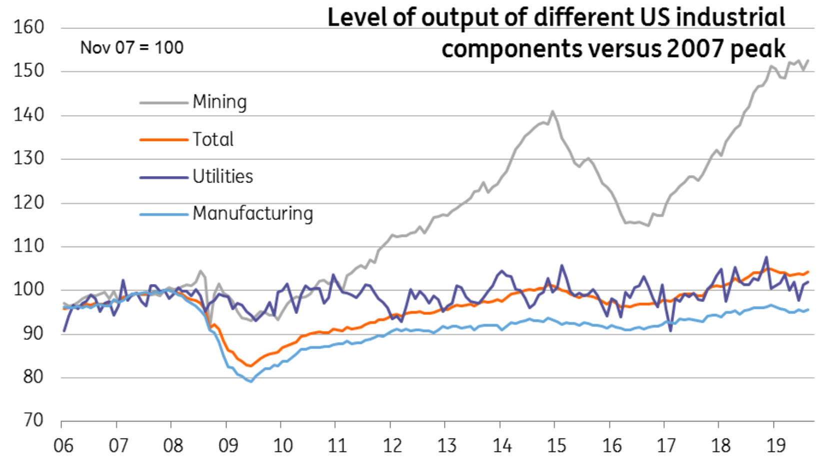
Source: iStockphoto

-4.4% How far US manufacturing output is below its peak

After a pretty tough period, US manufacturing posted a stronger-than-expected 0.5% month-on-month gain in August. The details show broad improvements, led by machinery and fabricated metals, but auto output fell 1%. Outside of manufacturing, utility output increased 0.6% after a 3.7% rebound in July while mining output rose 1.4%, so in aggregate industrial production rose 0.6% versus the 0.2% consensus forecast.

It is a rare piece of good news for the manufacturing sector, but today's report does not mark a turnaround. Output is still down 1.1% from December 2018 and is 4.4% lower than the peak seen in December 2007.

Level of US industrial output relative to pre-Global Financial Crisis peak

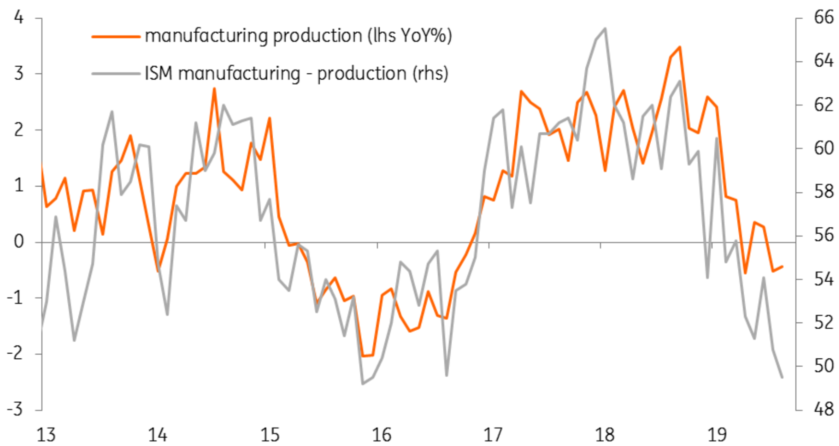


Source: Macrobond, ING

With the latest Chinese and European numbers underlining the weakness in the global economy and the stronger dollar hurting the US' international competitiveness we expect to see further export weakness over the coming months. The sector is also still working to run down an inventory overhang at a time when trade tensions continue to cause nervousness about supply chains, costs and corporate profitability. This is translating into weaker durable goods orders, which in turn suggests stagnating and even falling US equipment investment spending.

This rather gloomy story is already evident in the ISM manufacturing survey, which as the chart below shows, is running at levels consistent with manufacturing output falling 2.5% year-on-year. This is not going to be good news for employment and future wage gains. As such it reinforces our view that the Federal Reserve's mid-cycle easing will continue tomorrow with additional interest rate cuts likely in December and 1Q20.

Business surveys point to further manufacturing weakness



Source: Macrobond, ING

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