

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

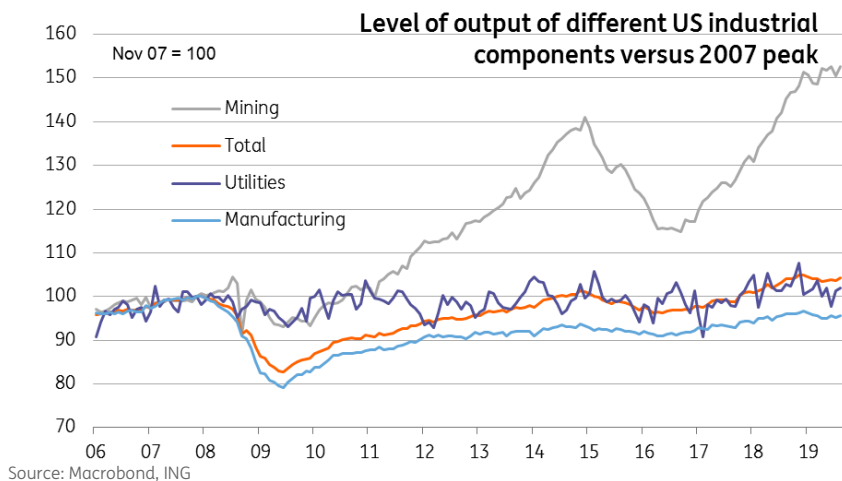
-4.4% How far US manufacturing output is below its peak

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.

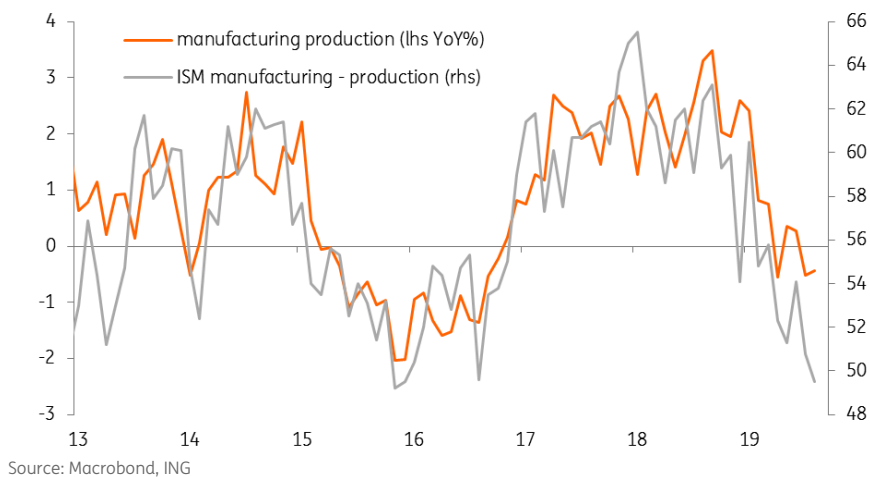
Level of US industrial output relative to pre-Global Financial Crisis peak



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



Author

James Knightley

Chief International Economist, US

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 <http://www.ing.com>.