

## US: More (positive) surprises in store?

The recent hurricanes have distorted a few data releases, but we think the underlying story for the US economy remains strong



Source: iStockphoto

### Storm damage

When President Trump was elected, there was a wave of optimism surrounding the prospects for the economy. Meaningful tax reform and a trillion dollars of infrastructure and policies to boost American jobs were all being proposed with proponents arguing they would lead to a step change in US growth. The dollar had a boost, equities surged, and interest rate hike expectations crept higher.

President Trump and his Administration have since struggled to get momentum behind their policy initiatives, but it doesn't appear to have cost the economy too much. Second-quarter GDP expanded 3% at an annualised rate, and recent data flow suggests we could see something similar again for the third quarter, despite the apparent impact from Hurricanes Harvey and Irma.

Last Friday's retail sales report posted robust growth while the jobs story remains strong and Tuesday's industrial production report should add to the positives.

Industrial output fell 0.9% in August while manufacturing output fell 0.3%. Hurricane Harvey resulted in wide-scale outages in the oil and gas sector and at other plants (petroleum and coal products fell 1.6%MoM, chemicals fell 2.2% while utility output declined 5.5%). In total, the Federal Reserve estimated it took off 0.75 percentage points from both manufacturing and industrial output. So should we be looking for a strong rebound in September?

# -0.75

## Estimated impact of Hurricane Harvey on industrial activity

percentage points

### Will output rebound?

Well, it's difficult to say. The Fed has admitted it has been tricky to get information both on the timing of resumption of operations at affected plants and which plants are still closed due to damage.

There is also the problem that Hurricane Irma made landfall in Florida around the time of the data collection period for this September report so there may well be some ongoing weakness – the Fed noted that Irma was “anticipated to hold down IP”. Hence it's not surprising to see such a broad range of analysts' predictions, ranging anywhere from +1.5%MoM to -2.0% with the consensus at 0.3%.

---

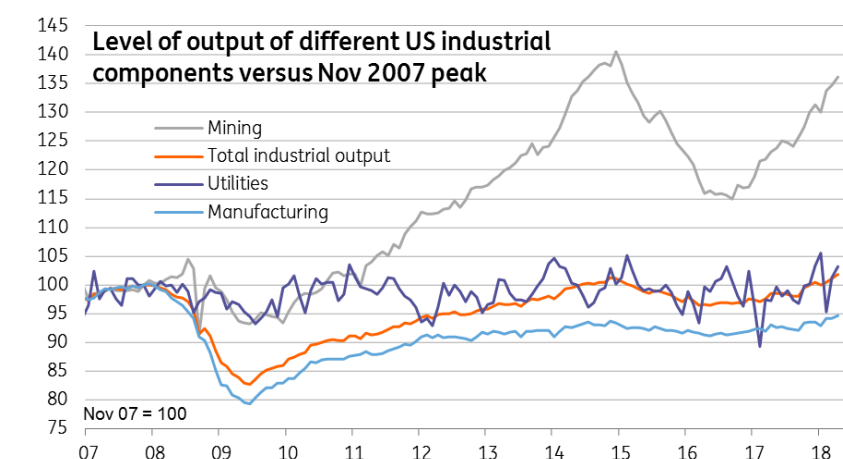
*We think the outlook for the year is very positive and business surveys also paint a very positive picture. If President Trump can make meaningful tax reform, this should support domestic investment and industrial activity*

---

We see upside risks to the 0.3% figure. For one thing, manufacturing employment wasn't severely impacted by the storms, falling just 1,000 in September versus the 33,000 for non-farm payrolls, while manufacturing hours worked in the month were unchanged.

At the same time, the ISM manufacturing index has hit a 13-year-high as a strong domestic economy, a competitive dollar exchange rate and strengthening global demand help to lift orders and production. Then there was the comment in the minutes of the last FOMC meeting where it stated “anecdotal reports from the hurricane-affected regions... indicated that production had already started to recover.” Add in a likely rebound from utilities, and we look for IP to expand 0.6% on the month.

## US industrial production breakdown



Source: Macrobond

### Implications for policy

We think the outlook for the rest of the year is very positive as well. Order books are in strong shape while rising oil prices are encouraging more output from that sector – note that the Baker Hughes crude oil rig count in the US has grown 42% since the start of the year. Business surveys also paint a very positive picture.

If President Trump can make meaningful tax reform, for example regarding a one-off tax cut that will allow a repatriation of foreign earnings, this should encourage domestic investment and industrial activity. Such an outcome is likely to add to calls for the Fed to tighten monetary policy more swiftly than financial markets are currently pricing.

### 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).