

Momentum builds in US manufacturing

Despite the well publicised difficulties in the auto sector, manufacturing production posted a respectable gain after a very strong March. Robust order books and low customer inventories suggest ongoing strength in output while the \$2.2tn infrastructure plan offers more opportunities

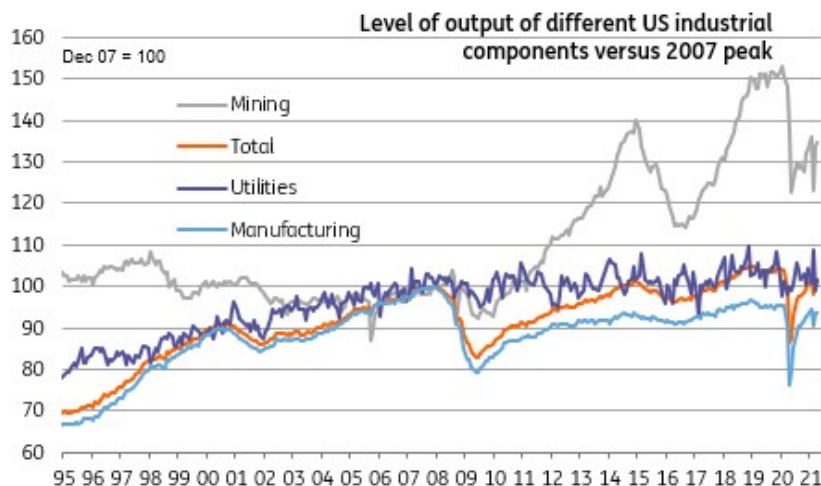


Manufacturing grows despite supply chain issues

US industrial production rose 0.7% month-on-month in April versus the 0.9% consensus, but as with the retail sales report, look at the revisions – +2.4% growth for March versus the 1.4% initial print. On balance this is a good outcome with manufacturing figures actually coming in better than hoped. Output here rose 0.4% MoM (consensus 0.3%) with March's figure revised up to 3.1% from 2.7%. Utilities output rose 2.6% while mining rose 0.7%.

Looking within the details we can see that auto output was the weak link given the well publicised slowdown relating to a lack of semi-conductor chips that go in anything from brake sensors to satnavs. Defence and space fell 0.1% while construction supply fell 0.9%, but all other components posted gains, including a 2.4% rise in home electronics and 0.6% increases in business supplies and information processing equipment.

An interesting side point is that while manufacturing output is now only 1.8% below its pre-pandemic peak, having fallen 20.2% between the start and the worst point of the pandemic, it is still 6.3% below the 2008 all-time peak in output. This underlines the long-term decline in the sector and reinforces how difficult a structural turnaround is to generate.



Source: Macrobond, ING

Strong outlook for the rest of 2021

Nonetheless, the ISM report suggests that order books are full with a strong backlog while customer inventory levels are at historically low levels. This is a great position to be in and offers increased pricing power that can be used to cover higher input costs and potentially expand profit margins. President Biden's \$2.2tn infrastructure investment plan should provide additional opportunities for US manufacturing firms.

Rising commodity prices should also provide support over the next few months with Baker Hughes data showing there were an average of 436 oil and gas rigs working in April, up from 408 in March. Already in the first week of May this is up to 448 suggesting strong output gains in this and coming months.

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 www.ing.com.