Tougher times ahead for US industry

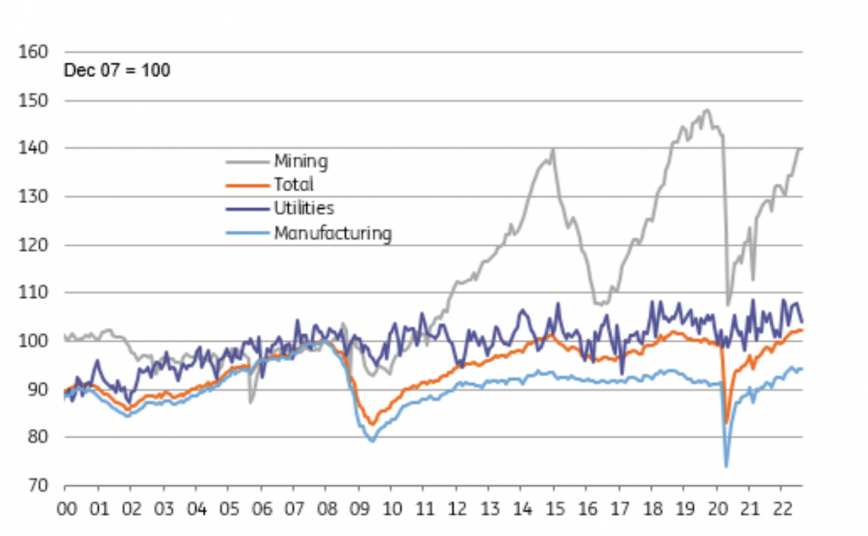
There is broadening evidence of a softening trend in industrial activity in the States, similar to what we're seeing in retail sales. Output fell 0.2% and there were downward revisions to the history. Regional manufacturing surveys also suggest tougher times are on the way for the fourth quarter

US industrial output is softening

US Industrial activity shows signs of slowing

US industrial production fell 0.2% in August (consensus 0.0%) while July was revised lower to 0.5% from 0.6%. The composition shows manufacturing was a little better than expected - rising 0.1%MoM rather than falling 0.1% with falling auto output offset by gains elsewhere, but again there was a 0.1pp downward revision to July. Utilities' output dropped 2.3% in response to cooler weather while mining was flat on the month despite oil and gas drilling rising 2.7%.

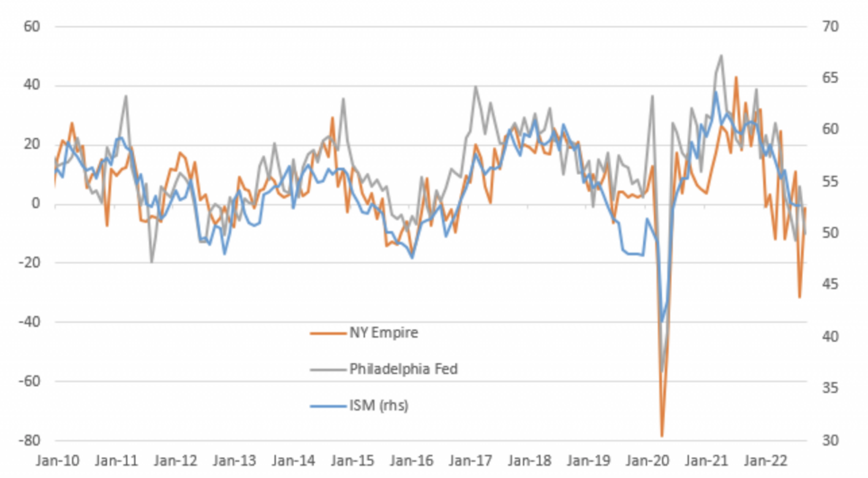
US industrial production levels by component



Source: ING, Macrobond

Like the retail sales report, you can see a softening trend, with August manufacturing output levels just 0.2 percentage points above those in March. Broader manufacturing is a little better, being 0.9 percentage points higher than in March, but this is purely down to the strength in oil and gas drilling following the spike in prices.

US manufacturing surveys on a weakening trend



Source: ING, Macrobond

Industry faces intensifying challenges

This drilling looks set to continue being the main growth driver given the supply strains the gas market is under globally. Indeed, today's Philadelphia Fed manufacturing survey (weaker) and Empire (stronger from a very weak level) point to further declines ahead for the ISM and broader manufacturing numbers. While we remain hopeful for a decent contribution to GDP activity from industry in the third quarter, helped by inventory building boosting orders, the story towards the end of the year is unlikely to be as good. China's PMIs are already pointing to more bad news, while fears of energy rationing in Europe raise another troubling issue for US manufacturing supply chains and costs.

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