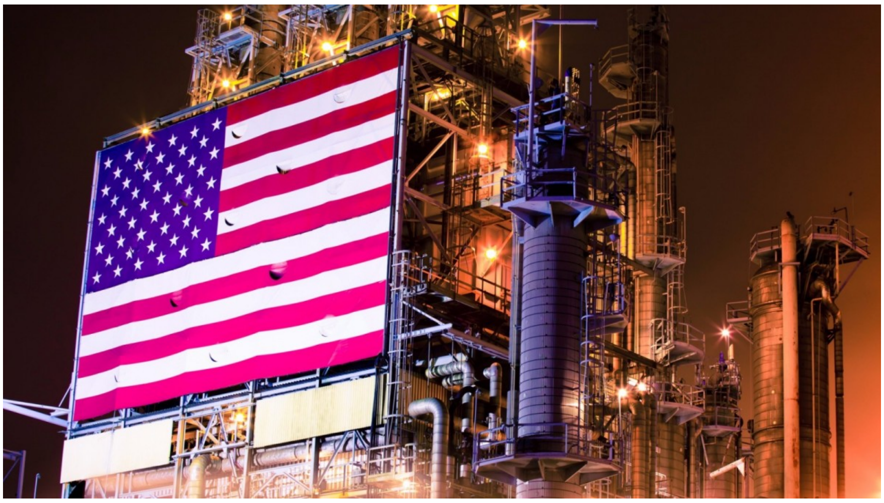
US: A slippery slope for industry

Supply constraints from Asia, plummeting demand both at home and abroad together with the disruptive effects of social distancing mean March's steep fall in output is just the beginning. This will undoubtedly hurt capital expenditure in coming quarters, particularly in the energy sector given the collapse in prices and consumption



Source: iStockphoto

-6.3% MoM

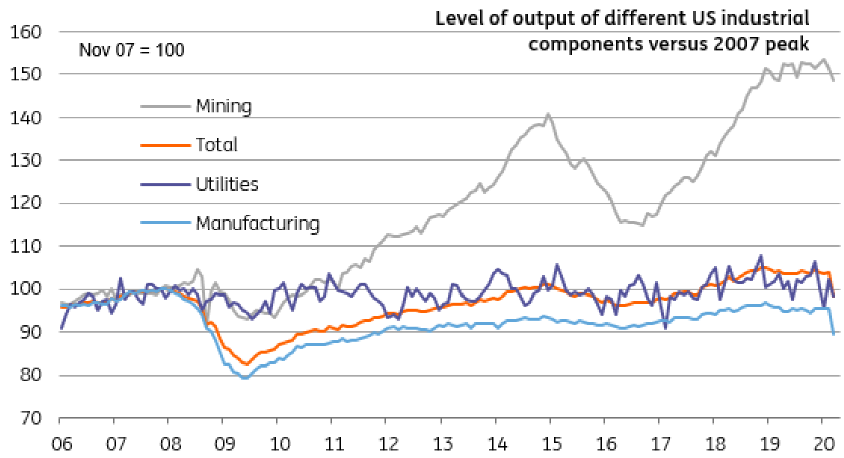
The steepest MoM fall in manufacturing since 1946!

March plunge is just the beginning

US manufacturing and industrial production fell more than expected in March, -6.3% month on month and -5.4% MoM, respectively, and was much weaker than implied by the ISM manufacturing survey. It underlines the problems for the sector caused by the combination of Asian supply constraints, weaker demand and some social distancing in the workplace. It also offers early signs of the pain to come for the energy sector in the wake of the price collapse and demand destruction as travel is steeply curtailed.

The details show motor vehicle output fell 28% while even excluding this major category, output was down 4.5% with all categories reporting falls of between 1.8% (info processing) and 8.6% (business equipment). Utilities output fell 3.9% while mining output was down 2%, but we will see much steeper declines in coming months as drilling is cut back (Baker Hughes report that US oil and gas rig counts are currently at 602 versus 793 at the start of March)

The level of output by sector 2007 = 100



Source: Macrobond, ING

Output set to test Great Financial Crisis lows

Today's report takes manufacturing output to the levels last seen in 2012. April's manufacturing numbers will be much worse based on today's NY State Empire manufacturing survey's 57 point fall. It is at levels consistent with an ISM report of 35, which in turn is consistent with manufacturing output falling 15% year on year for next month versus -6.6% YoY in March. During the Great Financial Crisis the weakest reading was -18% YoY in early 2009.

With production and new orders plummeting, manufacturing firms have plenty of capacity. This will undoubtedly hurt capital expenditure in coming quarters with unemployment in the sector set to rise, despite government and central bank support programmes. As such we are sticking to our 1Q GDP forecast of -6% annualised and 2Q of -40% annualised.

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