

US: auto rebound brings manufacturing cheer

Industrial production has rebounded strongly in November, primarily due to the ending of the GM auto workers strike. Utility output also jumped on colder weather, but the underlying story remains one of a sector that is struggling due to weak global demand, a strong dollar and trade uncertainty

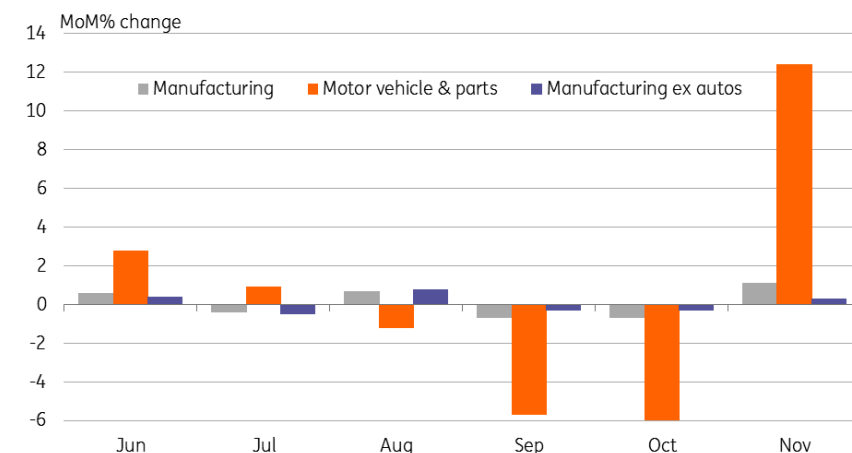


Source: Shutterstock

Industrial output jumped 1.1% month-on-month in November versus the consensus forecast of a 0.9% rise, but October's growth rate was revised down a tenth of a percentage point to -0.9% from -0.8%. Of course these big swings are overwhelmingly auto related following the conclusion of the

auto workers strike at General Motors, which had effectively shuttered production for the second half of September and most of October. Auto output plunged 5.7% in September and 6% in October only to rebound 12.4% in November. Given aggregate hours worked in the auto sector had risen little more than 5% in November, today's output number suggests employees were pretty productive.

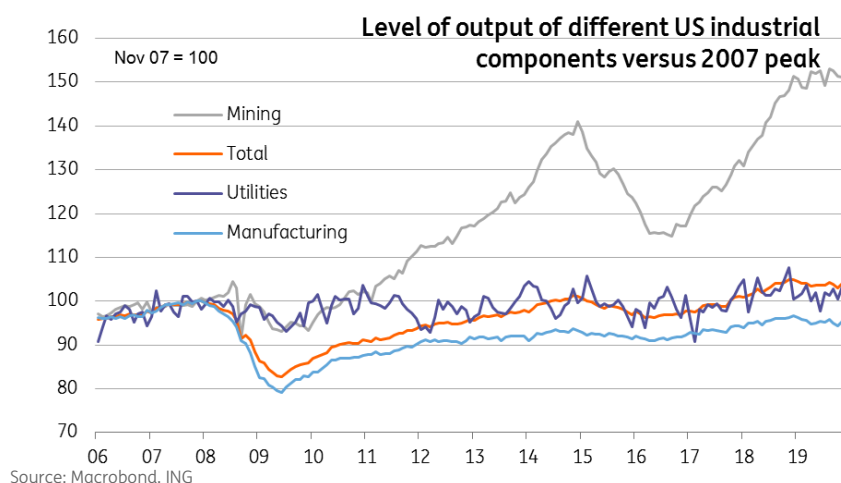
Autos responsible for manufacturing swings



This isn't the whole story. There were better numbers ex auto too with output up 0.3% after a poor run - computers & electronics performed well. We also saw utilities rise 2.9% thanks to a cold snap, but mining fell 0.2%, the third consecutive monthly contraction.

While today's numbers are good, we have to remember that looking at levels, manufacturing output in total remains 1.4% below the levels of year-end 2018 and 4.7% below the peak level of manufacturing output seen in December 2007. Even when taking into account the surge in oil and gas output over the past decade, industrial production in total is only 4% up on pre-Global Financial Crisis levels.

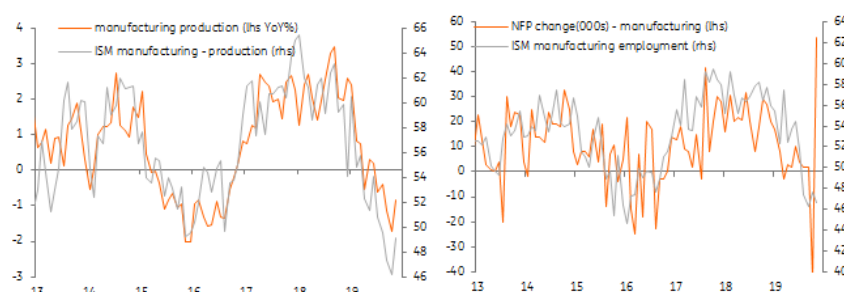
Levels of industrial activity



There has been some optimism that the phase 1 trade agreement with China will bring some positive news for the sector. We see it as more a situation of stabilization of relations rather than a major improvement in the trade environment though. After all, there is only a partial roll back in the September 1 set of tariffs from 15% on around US\$120bn of good imports from China to 7.5%. Also, as other countries have recently experienced, President Trump can swiftly change his mind when it comes to trade.

Moreover, the conditions of weak global demand and the strong dollar remain in play. In this regard the ISM manufacturing series suggests that the tough times for the sector will continue, at least in the near term. The production index suggests output will continue to contract at a -2% year-on-year rate while the employment index points to manufacturing payrolls falling 10,000-15,000 per month - note the recent massive swings relating to the GM strike.

ISM series point to tough times continuing



Source: macrobond, ING

With manufacturing continuing to struggle and the recent retail sales numbers suggesting a more subdued environment for consumer spending we continue to see 2020 growth more likely coming in closer to 1.5% rather than 2%.

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.