

US industrial production - it will get worse

Weak industrial output is a concern. With supply chains set to face more disruption, and the energy sector hit by plunging prices, we see little prospect of near-term improvement. A rate cut before the end of 2Q20 looks ever more likely on the cards



Source: Shutterstock

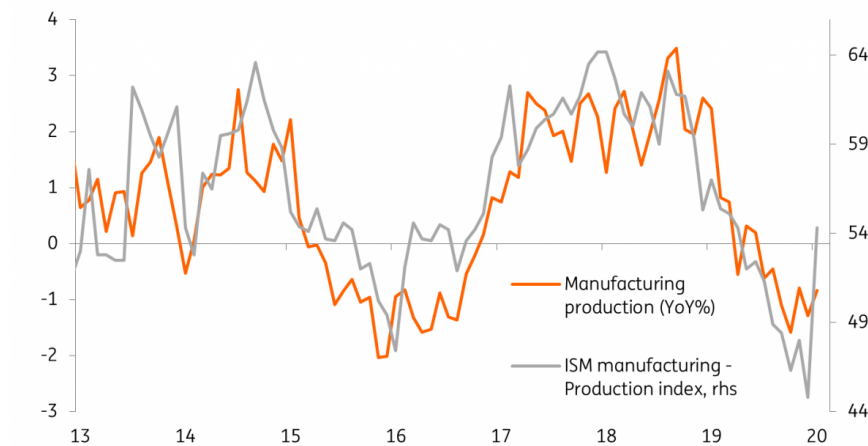
Industrial production fell 0.3% month on month in January versus predictions of a 0.2% decline.

The data shows the effects of the very warm January weather (it reached 69F in Manhattan the weekend of 11 January and 12th as I wore a T-shirt while watching my son play rugby down by Hudson River Park). Utility output plunged 4% in January after having declined 6.2% in December given no need for heating (and barely any need for the very expensive winter coat I was advised to buy after moving to New York).

Manufacturing output was also weak (-0.1%MoM, matching expectations) despite the surge in the ISM production component (see chart). Given the ISM is a survey, it may well be that it over-represents the true situation as sentiment rebounded in the wake of the US-China phase one trade deal and participants felt a wave of relief. Further weakness is likely too in manufacturing output

figures given that Boeing 737 Max production only ended in the second half of the month, so it is more of a story for February.

ISM manufacturing vs production

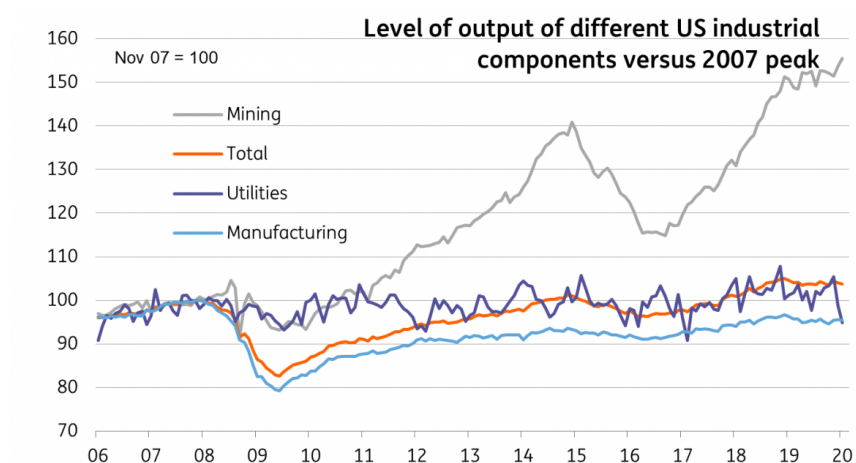


Source: Macrobond

The new issue is, of course, supply chain disruption resulting from lower Chinese and Asian factory output due to the impact of the coronavirus. This is already leading to a shortage of components and parts in factories around Asia and it is only a matter of time before it becomes more of an issue for Europe and the Americas - they are that bit further away so there is longer shipping time and a greater delay to the impact.

Rounding out, mining was actually pretty good, rising 1.2%MoM despite oil and gas rig counts being largely flat on the month, but with energy prices having plunged we have to be braced for declines in drilling in coming months.

Industrial production breakdown



Source: Macrobond, ING

We are not confident of a reversal in fortunes for the US industrial sector despite the positive trade conclusion. With the consumer story looking underwhelming after today's retail sales figures we still think a Federal Reserve rate cut is on the cards before the end of

2Q20.

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