

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

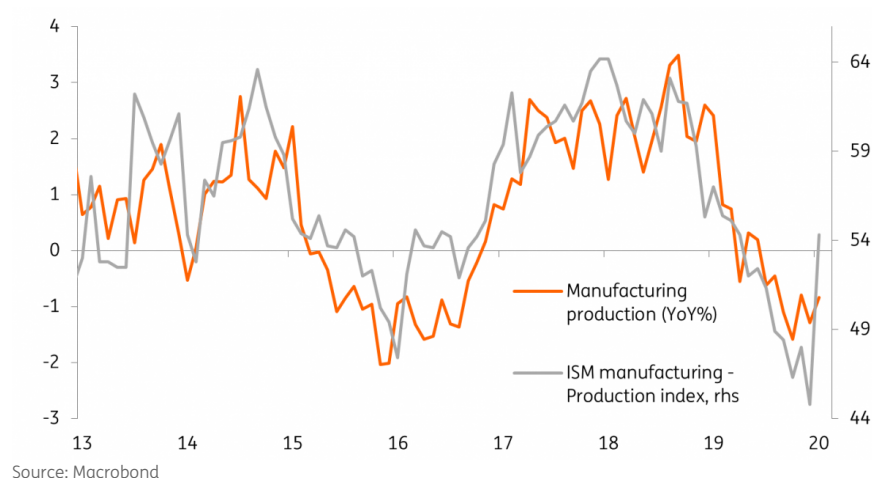
Industrial production fell 0.3% month on month in January versus predictions of a 0.2% decline.

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.

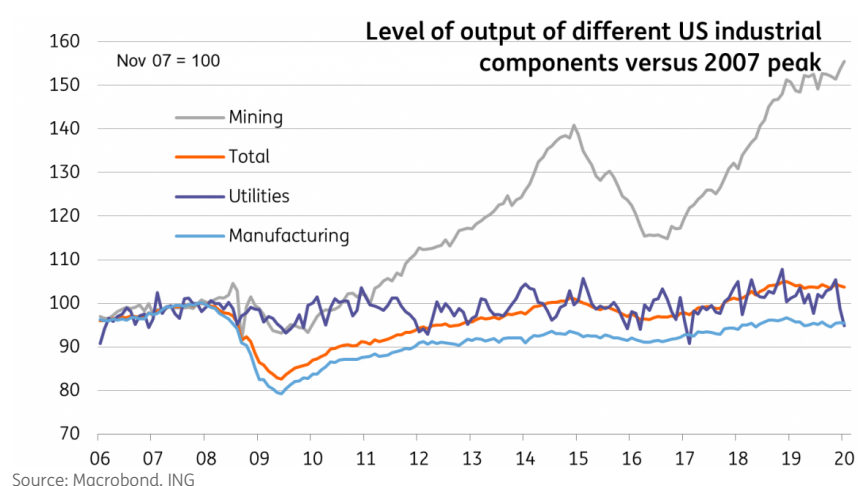
ISM manufacturing vs production



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



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.

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.