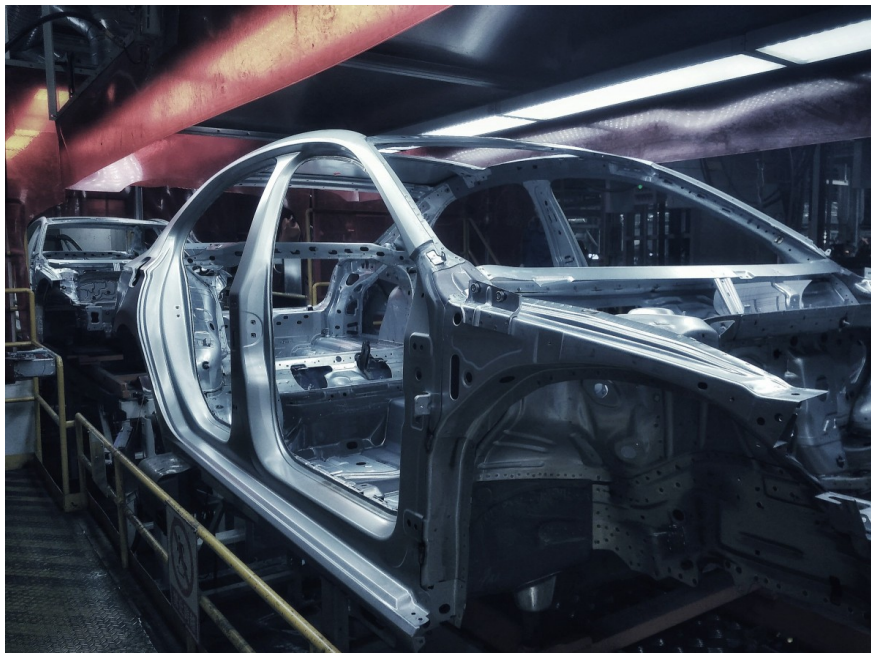


US industry feels the strains

Supply chain shortages continue to hurt manufacturers with an increasing range of sectors now struggling. Nonetheless, demand remains strong with order books continuing to grow while customers become increasingly desperate. This is yet another sign the inflation pressures will be slow to fade

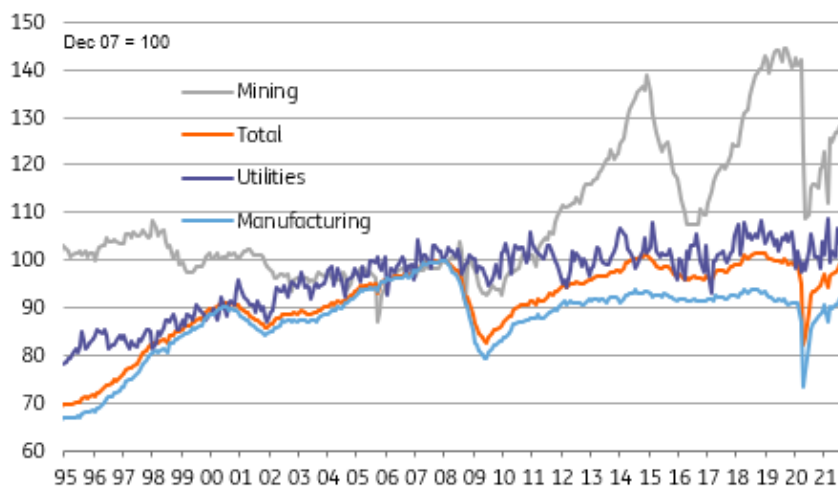


Car frame on an automobile manufacturing line

12.5% Decline in US vehicle production in September

US industrial production in September was much weaker than the market was expecting. The 1.3% month-on-month fall was significantly away from the 0.1% MoM gain the consensus forecast while there was also a 0.5 percentage point downgrade to August's figure from 0.4% growth to a 0.1% contraction. This will further dampen expectations for 3Q GDP growth, but it isn't necessarily a terrible outcome with the hefty mining and utilities declines due to one-off weather-related factors, that will quickly reverse.

US industrial production levels by sector



Source: Macrobond, ING

The details show manufacturing output falling 0.7% with a 0.6ppt downward revision to August's growth rate (from +0.2% to -0.4%). It was led by a 7.2% MoM drop in motor vehicle and parts (-12.5% for vehicles, -2.9% for parts) as semi-conductor chip shortages continue to heavily disrupt production lines. Outside of autos, production fell 0.3%, which suggests supply chain strains and labour shortages are not easing and will continue to hold back production for a good while yet.

Utilities output fell 3.6% due to cooler-than-usual weather leading to less electricity usage for air conditioning units. Mining fell 2.3% with disruption from Hurricane Ida impacting oil output. This isn't great, but at least these components have scope to rebound. Indeed, oil and gas extraction will likely be a major growth driver given the surge in energy prices prompting an acceleration in drilling.

The problems for manufacturing are likely to be longer lasting with supply chain strains unlikely to ease anytime soon. Moreover, surging freight and energy costs are adding to the problems for the sector and will add to cost pressures. With demand so strong, manufacturers have pricing power and this will contribute to ongoing elevated consumer price inflation through 2022.

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.