Snap | 15 July 2020 United States

# US manufacturing bounces, but it's a long road to full recovery

Manufacturing has surged in response to the re-opening, but output remains more than 11% below December's level. Coupled with a weak corporate profits backdrop there is little incentive to put money to work on capex, which will constrain the recovery story



June 2020 posted the biggest bounce in US manufacturing output since 1959 as the economic reopening process that began in May gained momentum. Output surged 7.2% month-onmonth versus the 5.7% consensus expectation. We already knew from the jobs report that employment rose 3% in the sector in June (356,000 jobs) while hours worked increased by 30 minutes for each worker, so a strong figure was looking likely. Nonetheless, we must remember that output is still more than 11% lower than in December, so there is a long way to go in the recovery. Even though the ISM manufacturing survey is suggesting positive growth, there will be long lags involved, as we saw post the Global Financial Crisis.

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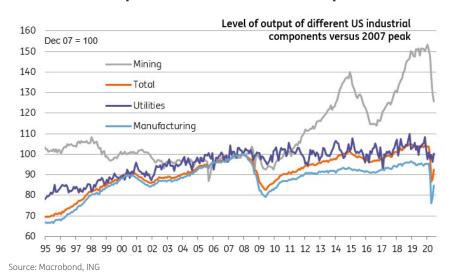
# ISM survey versus manufacturing production - hopes for a 'V', but it will likely fall short



Once again it was auto production that led the way, jumping 105% MoM after a rise of 120% in May. Auto output still remains 25% lower than 12 months ago though, which goes to show how precipitous the decline in production through March and April was. Excluding autos, manufacturing output rose a more muted 3.9% with the biggest gains in business equipment (up 11.8%) and consumer goods, which rose 9%. Defense and space, construction supply and business supplies lagged, but still made gains.

The broader industrial production measure also beat expectations, rising 5.4% versus the consensus forecast of 4.3%. Utilities rose 4.2% as factory demand for electricity rose thanks to reopenings while warmer weather boosted domestic consumer demand. Mining fell 2.9% though with oil and gas drilling down 18%.

## Levels of output remain well below pre-Covid-19 era



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Even after today's strong manufacturing gains, capacity utilisation remains very low at 68.6%. With corporate profitability having been crushed by the disruption due to virus containment measures, there is little incentive to invest in capex as yet. This is likely to hold back the broader recovery and is a key factor why we doubt the US economy will recover all of its lost output much before the end of 2022.

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