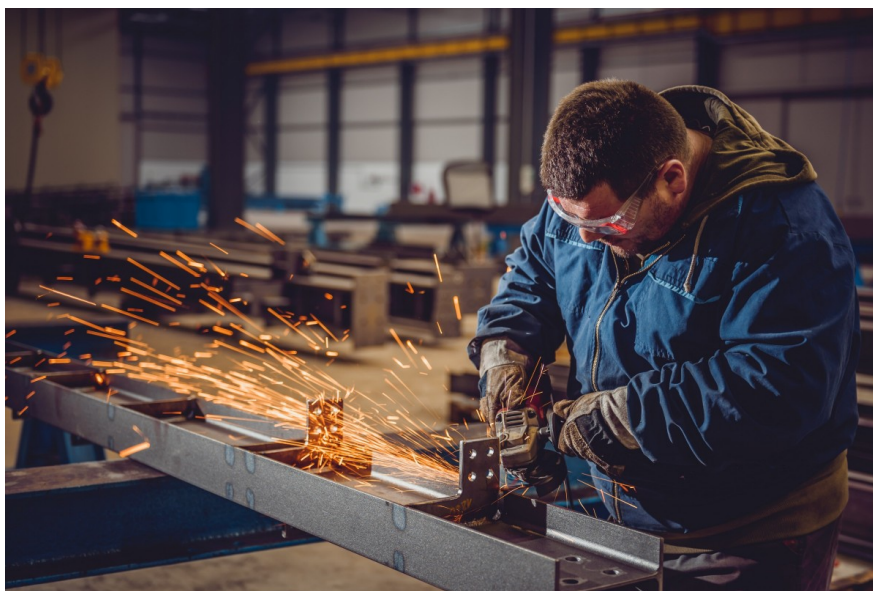


US: Manufacturing held back by chip shortages

Industrial output did recover following weather-related disruptions in February, but the scale of the bounce-back was a little disappointing. A significant proportion of this can be blamed on semi-conductor shortages, but as this situation improves, the manufacturing sectors looks set to roar back strongly

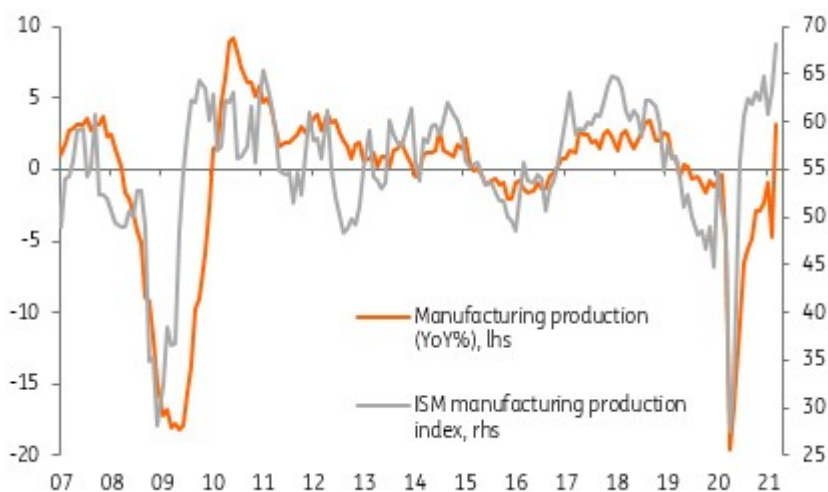


Manufacturing bounces, but not as much as hoped

US industrial production for March was softer than expected, rising only 1.4% month-on-month versus the consensus 2.5% prediction. February data was revised down to show a contraction of -2.6% from the initial -2.2% reading. The details show manufacturing rose 2.7% MoM versus expectations of a 3.6% gain while mining rose 5.7% and utilities output fell 11.4% as the weather normalised and the demand for heating fell after a bitterly cold February.

February's bad weather had also heavily impacted supply chains, thereby disrupting manufacturing production processes, so a bounce-back in March manufacturing was always widely expected. The scale of that bounce is a little disappointing though given what manufacturing surveys, such as the ISM release, have been reporting and highlights the negative impact the global semi-conductor chip shortage is having, particularly on auto output.

US manufacturing output and the ISM index



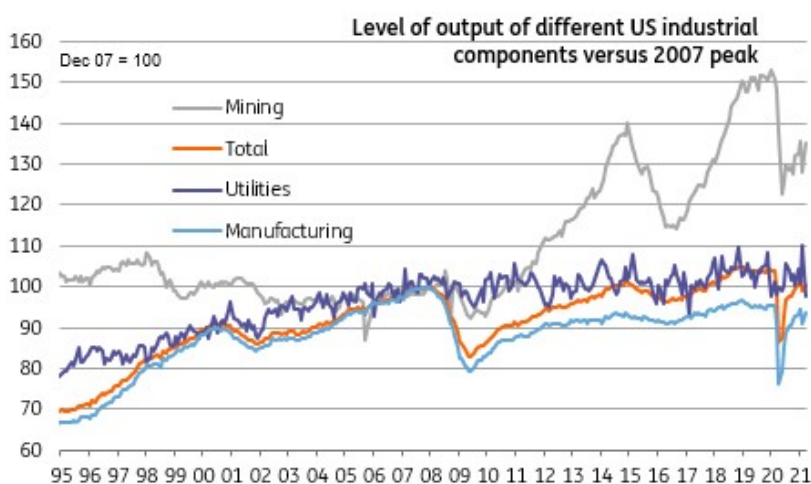
Source: Macrobond, ING

Fundamentals suggest vigorous growth is coming

However, with order books looking full and customer inventory levels at historically low levels according to the Institute for Supply Management, when the semi-conductor position improves the output numbers will grow strongly.

Indeed, payrolls growth was very strong in March, which suggests ongoing optimism in the sector and with the \$2tn+ Build Back Better infrastructure investment plan gaining traction this should offer additional opportunities for US manufacturing firms.

Levels of industrial output versus 2007 peak



Source: Macrobond, ING

Commodity prices to continue support mining

Rising commodity prices should also provide support over the next few months with Baker Hughes data showing there were an average of 408 oil and gas rigs working in March, up from 397 in

February. Already mid-way through April we are up at 432, suggesting strong output gains in this and coming months.

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 <http://www.ing.com>.