US: Manufacturing held back by chip shortages

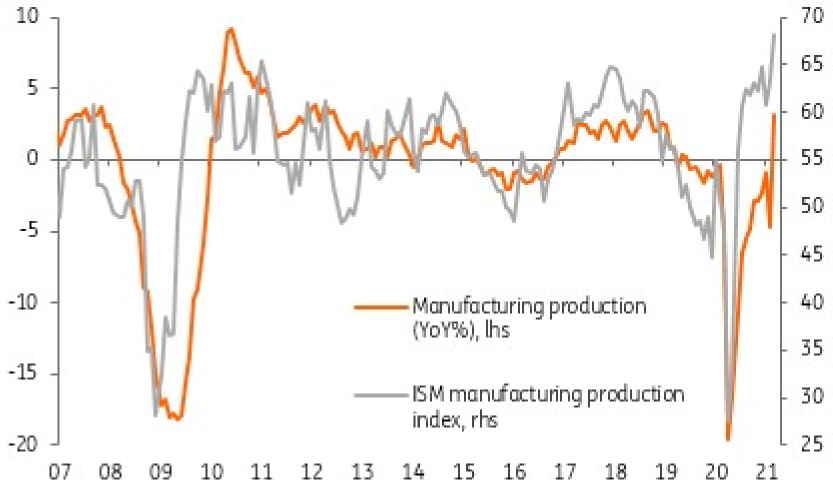
Industrial output did recover following weather-related disruptions in February, but the scale of the bounce-back was a little disappointing. A significant proportion of this can be blamed on semi-conductor shortages, but as this situation improves, the manufacturing sectors looks set to roar back strongly

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



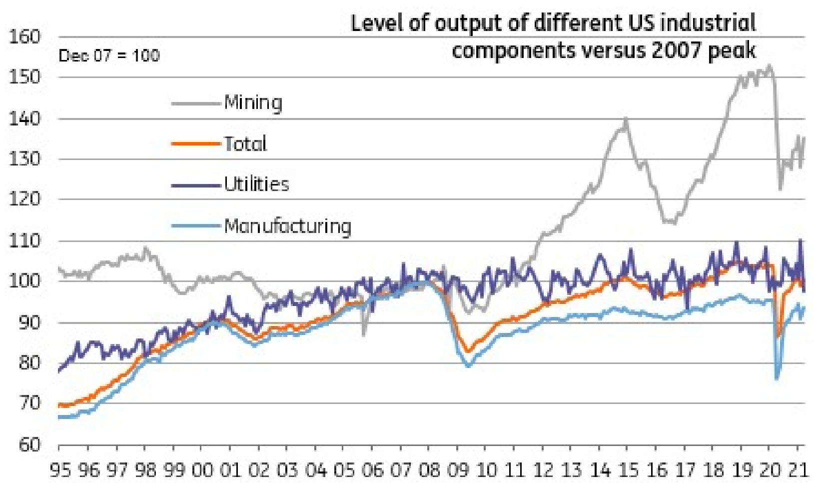
Source: Macrobond, ING

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.

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