

US: Manufacturing misfortunes

US industrial output plunged again in October as the combination of weak global activity, trade uncertainty and a strong dollar weighed on activity. Unfortunately, business surveys suggest there is more pain ahead for the sector

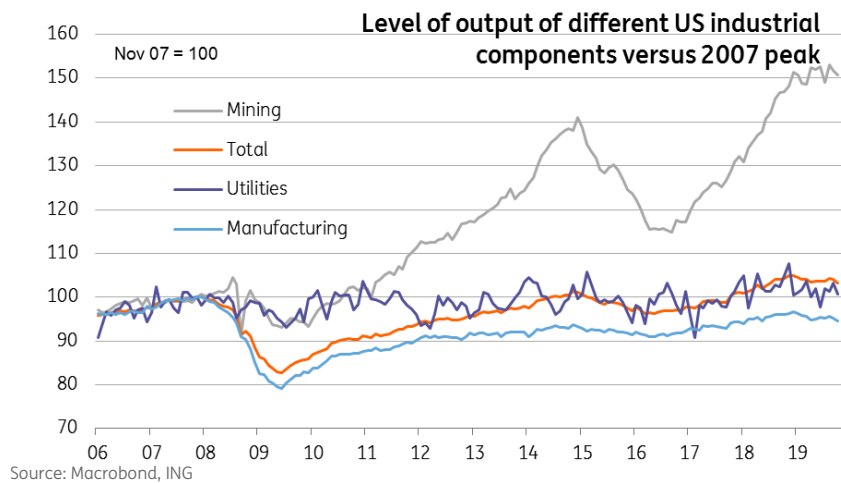


Source: iStockphoto

US industrial production fell 0.8% month-on-month in October – the biggest decline in output since May 2009 – as manufacturing, utilities and mining all posted declines. This is the third monthly output drop in the last four months with output now down 1.1% year-on-year.

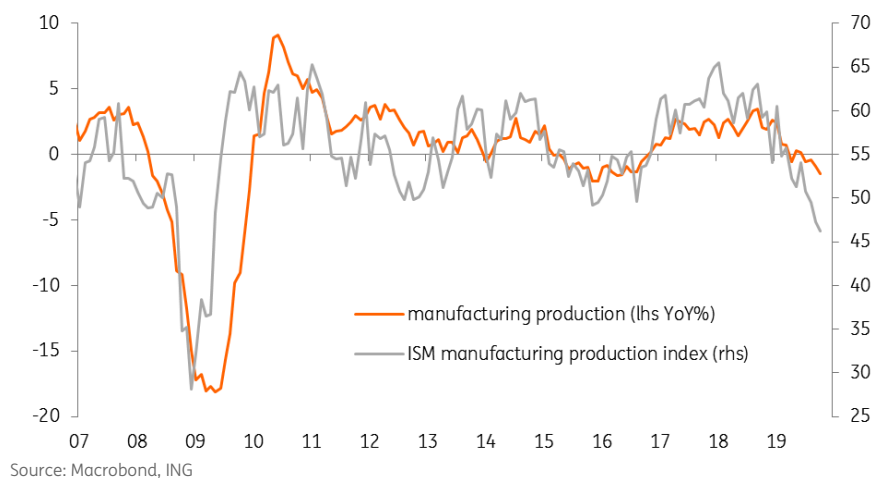
Manufacturing remains a clear concern as weakness in global growth, trade uncertainty and the strong dollar all weigh on sentiment and demand in the sector. Output fell 0.6% here after a 0.5% fall in September, bringing the year-to-date drop in output to -2.2%. In fact, output remains 5.5% below the peak seen in December 2007. The legacy of the GM strike is still in the data with output of motor vehicles down 7.1% MoM, but even when this component is excluded non-motor vehicle manufacturing output still fell 0.1% MoM.

Output levels by sector



Utilities output gets swung around by the weather so we aren't too worried by the 2.6% MoM decline here, but the 0.7% drop in mining (third fall in four months) suggests that the softness in energy prices is taking its toll. The latest drilling rig count numbers confirm the slowdown in the energy sector.

ISM points to further output falls



Lead surveys, such as the ISM production component aren't offering any positive news, with the chart above suggesting we should be braced for more bad news from the sector in coming months. There has been hope that a phase one trade deal with China could lift some of the gloom and offer a better backdrop for the sector, but this is taking longer to sign than hoped. Moreover, if we don't get substantial rollbacks on tariffs it is hard to see the sector receiving much of a lift given little sign of improvement in global demand while today's US retail sales number offer further evidence of a moderation in domestic consumer demand growth. As such, we continue to see the risk of additional Federal Reserve policy easing that may well come more quickly than financial markets are pricing.

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