

US manufacturing: near-term pain, long-term gain?

Robust manufacturing and construction data suggest a solid base for activity as we head into year-end, but rising Covid-19 cases and hospitalisations threaten more movement restrictions that are particularly bad news for the service sector. With mounting concerns over jobs we could see growth temporarily dragged into negative territory

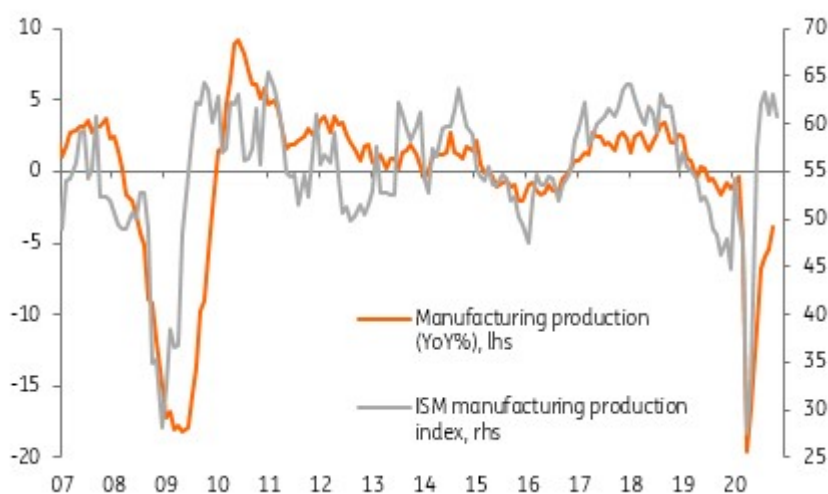


Source: Shutterstock

Manufacturing's solid fundamentals

The US ISM manufacturing index dropped back to 57.5 in November from October's 59.3 reading (consensus was 58). New orders and production continue to point to robust activity given they both remain above 60 – remember 50 is break-even. Further supportive news comes from the fact that inventory levels are at a new 10-year low and the backlog of orders rose, both of which indicates demand should remain very firm for the next few months at least. As the chart below shows, we should soon see manufacturing output return to positive year-on-year growth.

ISM & production growth



Source: Macrobond, ING

But Covid-19 presents near-term risks

However, there is a surprisingly weak employment number, which dropped into contraction territory at 48.4 versus 53.2 in October. This perhaps hints at caution in the manufacturing sector as it could face constraints from rising Covid-19 cases or it could experience a drop-off in demand in response to containment measures.

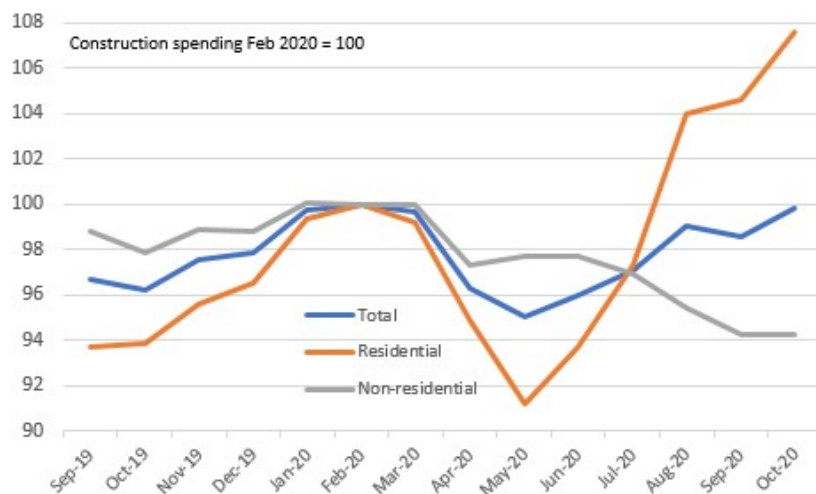
This was borne out in the accompanying text that suggested “companies and suppliers continue to operate in reconfigured factories, but absenteeism, short-term shutdowns to sanitize facilities and difficulties in returning and hiring workers are causing strains that will likely limit future manufacturing growth potential”.

Europe chose not to close manufacturing when it returned to lockdowns and we doubt very much that US authorities would shutter US manufacturing. Nonetheless, it suggests we should be prepared for some softness in economic data for the December-January period. Moreover, if there are jobs being lost in the manufacturing sector despite activity booming, there will certainly be jobs lost in the services sector, which is far more likely to face containment measures.

With initial claims already suggesting a shifting dynamic in the labour market, today's ISM employment number adds to a sense that the consensus of 580,000 private sector jobs being added in Friday's November payrolls report may be looking a little optimistic. Should Covid-19 containment measures be more widely introduced then the prospect of even weaker jobs data for December and January looks probable. We could even see negative consumer spending as a result over that period.

Nonetheless, once the vaccination program has reached a critical mass, perhaps in late 1Q21, we should see a vigorous period of economic activity. The combination of pent-up demand and the travel, hospitality and entertainment industries fully re-opening and hiring workers plus a fiscal stimulus on the order of \$1 trillion under President Biden should be a heady mix. We expect the US to finally have recovered all the lost pandemic output in late 3Q/early 4Q21.

Construction activity



Source: Macrobond, ING

Meanwhile, US construction rose 1.3% month-on-month in October versus the 0.8% consensus, but there was a net 0.8 percentage point downward revision to September so on balance it is a touch weaker than hoped. As anticipated all the strength is in residential, which is up 7.5% since February and up 18% since its nadir in May! Record low mortgage rates combined with a sense that working from home means we don't need to do as much city living is fuelling a boom in residential construction. That is not going to change anytime soon.

Non-residential construction, on the other hand, is down nearly 6% since February. This diverging performance is unlikely to change until businesses have the confidence to put money to work and governments have got the money to spend and that may not be until 2Q at the earliest.

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>.