

## US: Manufacturing output at 23 year lows

Manufacturing output has fallen to the levels last seen in 1997. Excess supply will undoubtedly hurt capital expenditure in coming quarters with more significant job losses expected



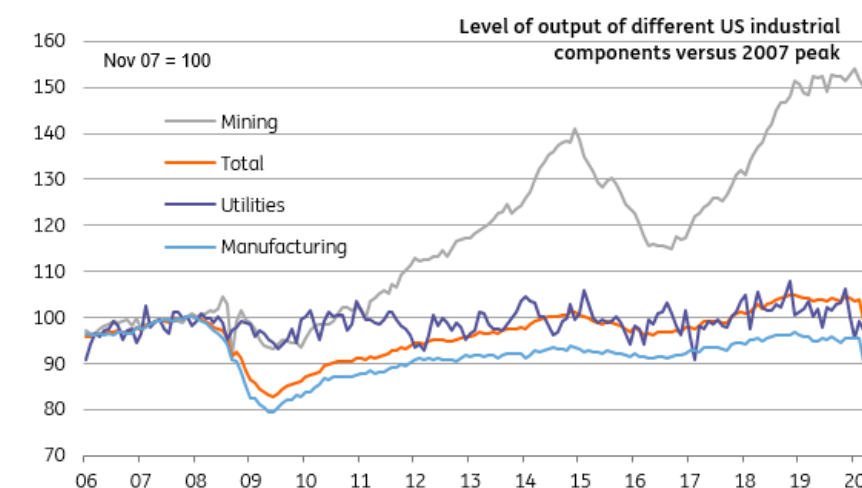
A factory in Michigan

**-13.7** Drop in US manufacturing output  
MoM

US manufacturing and industrial production didn't fall quite as much as feared in April, -13.7% month on month and -11.2% MoM respectively, while there were some modest upward revisions to March. Nonetheless, the situation is bleak for the sector as a combination of supply constraints, plummeting demand and closed factories takes its toll. The fear is that heightened US-China trade tensions may lead to more tariffs that push up business costs and provide additional disruption to supply chains at a time of already huge economic upheaval.

The details show motor vehicle output fell 71.7% while even excluding this major category, output was down 10.3% with all categories reporting falls of between 3.2% (home electronics) and 17.3% (business equipment). Utilities output fell 0.9% while mining output was down 6.1%.

## Levels of industrial activity



Source: Macrobond, ING

This means the level of manufacturing production is now below the bottom hit during the global financial crisis and is in fact in line with output last seen in 1997.

We are hoping that May should post a better manufacturing outcome with a number of production facilities restarting, but it is likely to be slow. That said, this morning's Empire manufacturing survey won't give anyone much confidence in the idea of a vigorous rebound.

There is likely to be more bad news from the oil and gas industry though. Baker Hughes data shows the US oil and gas rig count dropped from 793 at the beginning of March to 465 at the end of April while it currently stands at 374 for the second week of May, the lowest since the series began in the mid-1970s. This obviously indicates very weak output from the sector in the coming months.

The industrial sector in aggregate has plenty of capacity, which will undoubtedly hurt capital expenditure in coming quarters. Manufacturing unemployment is also set to rise further after 1.33mn jobs were lost in April.

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