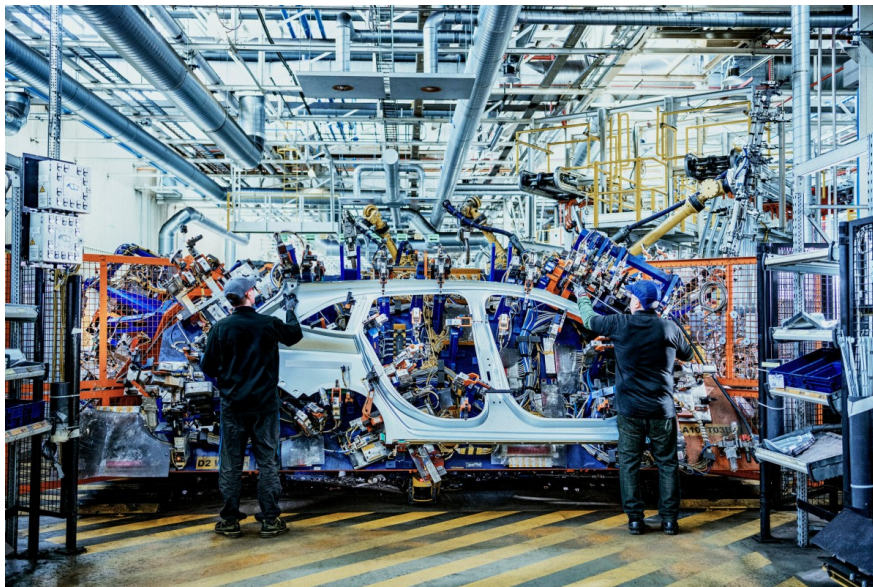


US manufacturing weakness adds to growth concerns

Manufacturing output surprisingly declined in December, which suggests supply chain strains and worker shortages continue to hold the economy back. Record Covid case numbers and enforced isolation will only intensify these problems in the near-term

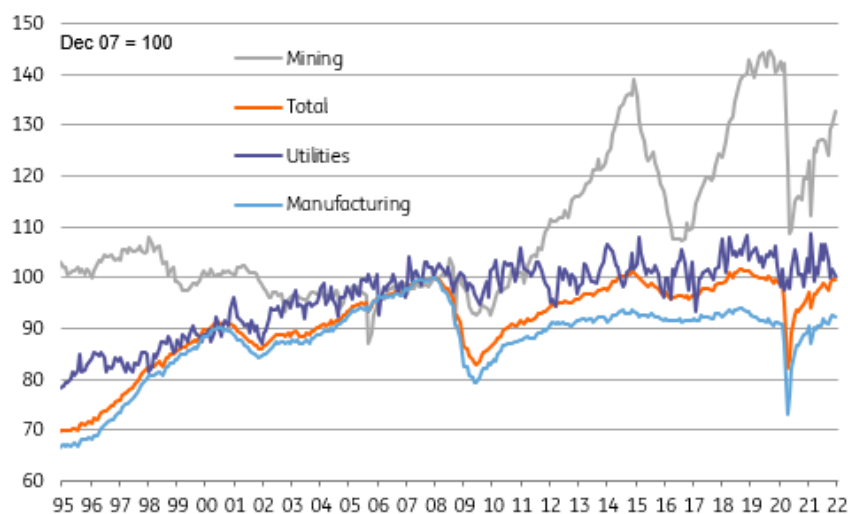


Source: Getty Images

Manufacturing constrained by production bottlenecks

Following on from the shock December retail sales plunge we see manufacturing output also fell in December. Output contracted 0.3% month-on-month versus expectations of a 0.3% gain that was based on the decent ISM and regional manufacturing numbers. The weakness was primarily in auto-related output, which fell 1.3%, presumably on lingering supply chain problems holding back output given strong demand for vehicles. However, even excluding this key component, non-auto manufacturing still fell 0.2% MoM.

Industrial production levels



Source: Macrobond, ING

Fed focused on inflation... assuming Omicron wave subsides

Utilities actually held up better than thought. Output was down “only” 1.5% despite the really warm weather that would have dampened demand for heating. Mining output then rose 2% led by a 3.7% increase in oil & gas well drilling. Putting it altogether this leaves industrial production posting a 0.1% MoM contraction in December versus expectations of a 0.2% gain.

Unlike the retail sales report, this won’t materially alter GDP expectations given November’s growth rate was revised a little higher. Nonetheless, it provides more evidence to suggest a loss of economic momentum in December that likely continues into January where worker absences could curtail output growth.

Inflation though is the Fed’s key concern right now and so long as Omicron case numbers start to subside in the weeks ahead, prompting hope for a rebound in activity in 2Q, the market is likely to continue to back the March rate hike view.

Author

James Knightley

Chief International Economist

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>.