

US production data highlights breadth of rebound

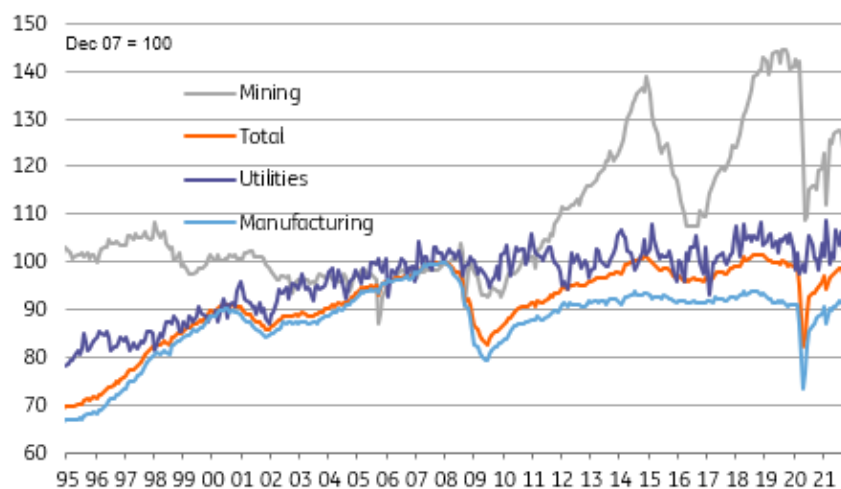
Broad-based strength in US industrial data combined with another upside surprise on retail sales reinforces the message that the US economy is bouncing back strongly following the 3Q Delta Covid hit. Pressure will continue to build on Fed officials to draw QE stimulus to an earlier end



As with the retail sales report, the October industrial production release has beaten expectations by a decent margin. Output rose 1.6% month-on-month versus the 0.9% consensus with all of the key components posting sizeable gains.

Manufacturing output rose 1.2% versus its 0.9% own consensus forecast, led by an 11% surge in motor vehicles and parts. Clearly there must have been a big batch of semi-conductor chips brought in last month from somewhere! Excluding autos, manufacturing output rose 0.6%. This means that manufacturing output is now 0.9 percentage points above the pre-pandemic peak seen in December 2019.

Industrial production levels by component



Source: Macrobond, ING

Meanwhile, mining jumped 4.1% thanks to a 9.3% MoM increase in oil and gas output as price increases stimulated drilling activity – the Baker Hughes rig count data had shown the average number of oil and gas rigs increasing from 508 in September to 538 in October. Nonetheless, there is still some way to go until it gets back to pre-pandemic levels – output is 9.5% down on January 2020 levels. Surprisingly, utilities output rose 1.2% despite warmer-than-usual weather which we would have thought might lead to less heating needs.

With both retail sales and industrial production showing that economic activity is rebounding sharply in 4Q 2021 in an environment where inflation is already triple its target, it will be increasingly hard for the Federal Reserve to justify ongoing stimulus through its QE program. We think it will be concluded in 1Q 2022, which will then pave the way for interest rate increases from 3Q onwards.

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