

US production plunge adds to fears we could already be in recession

Coming on the back of the weakness in retail sales, the steep drop in industrial production and news of more job lay-offs adds to fears the US could already be in recession. This is the third consecutive month of contraction in industrial activity with output declines looking broad-based



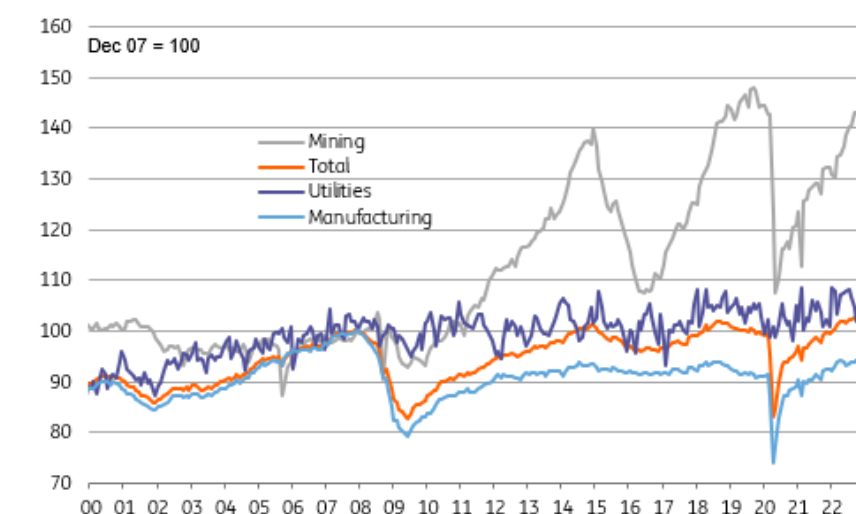
Industrial production experienced its third consecutive monthly contraction in December

Manufacturing falls add to the gloom on the US economy

Industrial production adds to the gloom surrounding the US economy, missing expectations by quite a margin and posting its third consecutive monthly contraction in output. Total output fell 0.7% month-on-month in December (the market consensus was -0.1%) while November is now reported as a 0.6% contraction after initially being reported as a 0.2% decline. Manufacturing is responsible for most of the weakness with output falling 1.3% in December after a 1.1% drop in November (that was initially reported as a 0.6% fall). All the main sub-components fell with motor vehicles/parts down 1%, machinery down 3.4% and computer/electronics dropping 1%.

Mining fell 0.9% MoM, possibly reflecting weaker oil and gas prices, which may have disincentivized some drilling. Bad weather may also have had an impact, but cold temperatures certainly boosted utilities. Output rose 3.8% with natural gas demand surging 8.2% on strong demand for heating.

Levels of US industrial output by sector



Coming on the back of such a poor retail sales report it reinforces the message that recession is on its way and we could in fact already be in it. The Conference Board's measure of CEO confidence is at its lowest level since the Global Financial Crisis and this means companies are going to increasingly adopt defensive strategies so the strong jobs numbers – pretty much the only decent set of numbers right now – cannot continue in this environment.

Note Microsoft's announcement of 10,000 job losses this morning (nearly 5% of its workforce) – remember jobs are always the last thing to turn in a cycle given labour data is such a lagging indicator. More bad news will be coming in the months ahead with the Federal Reserve likely to reverse its rate hikes from late third quarter 2023 onwards.

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