PANTHEON MACROECONOMICS

Datanote: US Industrial Production, May

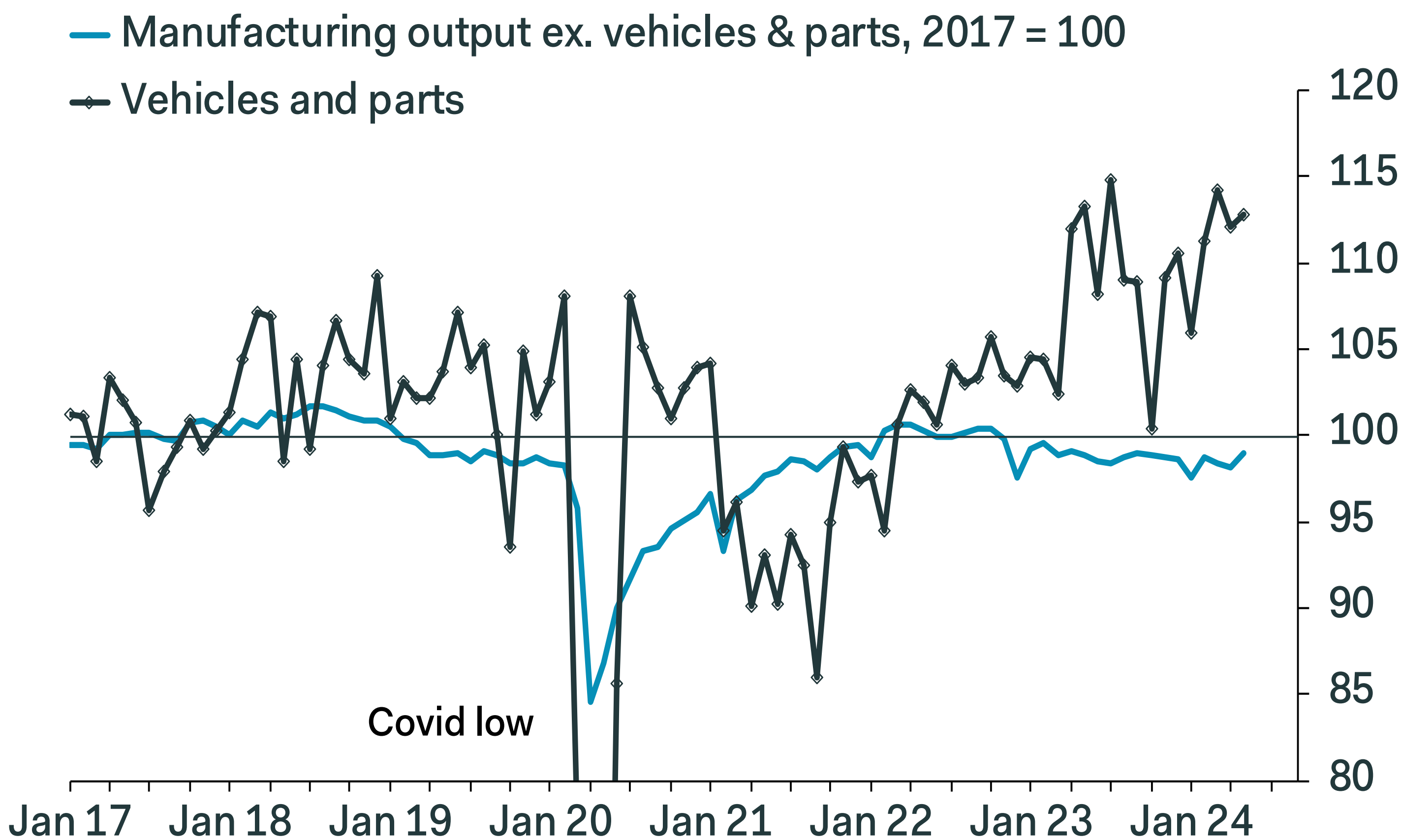
In one line: A gradual recovery is taking hold, but manufacturing is too small to alter the bigger picture.

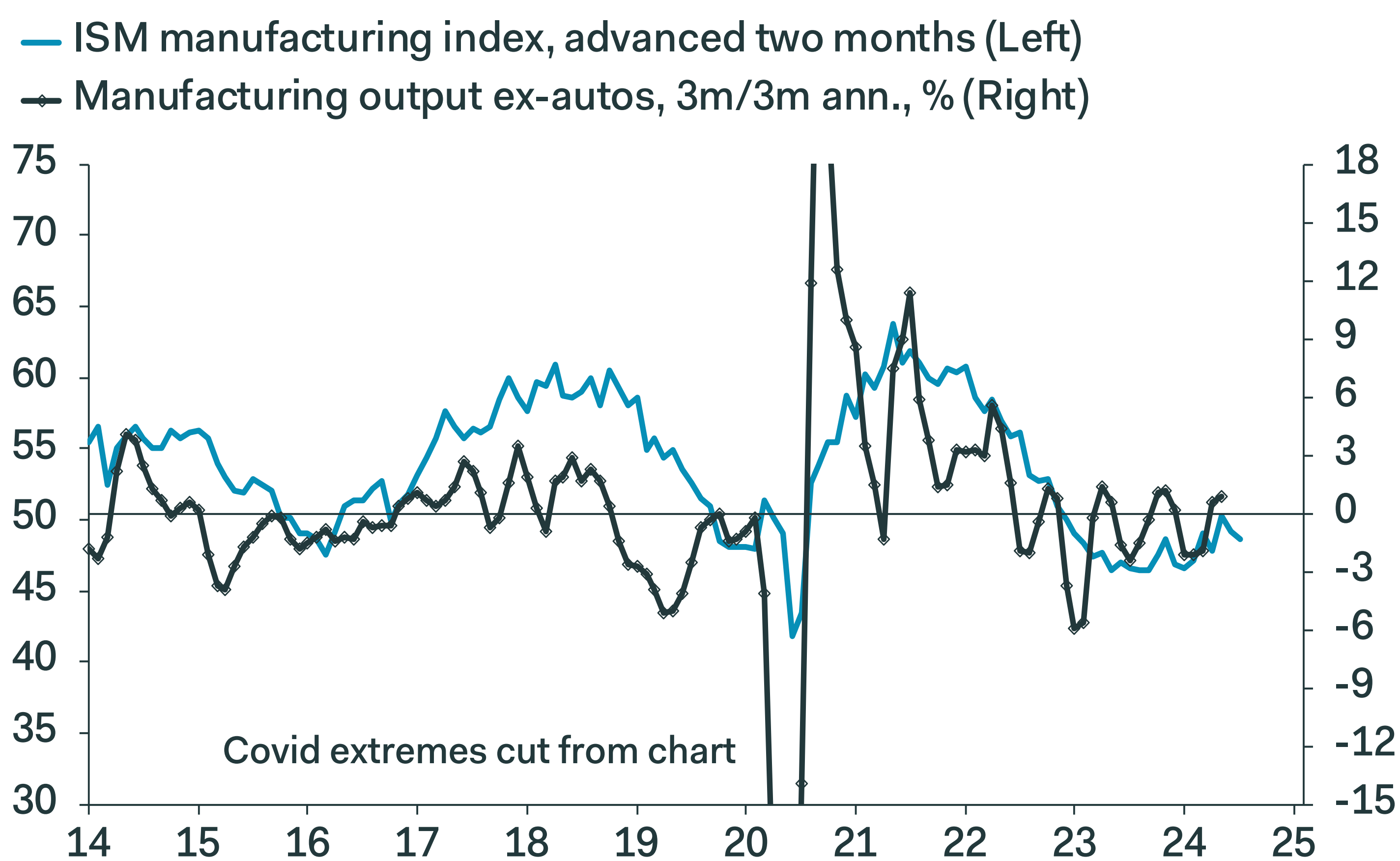
- May industrial production increased by 0.9%, well above the consensus, 0.3%. But net revisions were -0.2%.
- Manufacturing output rose by 0.9%, also greatly above the consensus, 0.3%. But net revisions were -0.3%.

Overall production was supported by a 2.0% month-to-month jump in electricity production. This seemingly wasn't driven by the weather, but mean-reversion in June nonetheless is a good bet, given the heightened volatility of output in this sector. Manufacturing output has turned a corner, but we doubt that its current brisk upward momentum will be maintained. Three-month-on-three-month annualized growth in output increased to 1.8% in May—not huge, but its highest rate for 12 months—

from 1.6% in April. This pick-up was broad-based among the sub-sector components, though it was bolstered by a 14.5% 3m/3m% annualised jump in autos and parts production; manufacturing output ex-autos rose at a relatively muted 0.9% rate over the same period. But even this modest growth currently exceeds the rate implied by the latest business surveys. For instance, the 53.0 May level of the output index of the S&P Global manufacturing PMI survey was below its 2010-to-19 average, 54.8, while the production index of the ISM manufacturing survey declined to 50.2 in May, from 51.3 in April, consistent with near-zero growth in output.

Growth in manufacturing output looks set to be incremental in the second half of this year, and output likely will take until deep into 2025 to return sustainably to its 2022 level. High interest rates and waning pricing power will limit growth in business investment, while the relatively high level of the US dollar will dampen external demand for manufactured goods. Slowing growth in consumers' real expenditure also likely will restrain the recovery in manufacturing output. Remember, too, that the manufacturing sector is simply too small—11% of total output and 9% of payrolls—to make a material difference to the economy's overall performance.


Manufacturing output ex. vehicles & parts, 2017 = 100
Vehicles and parts
120
115
110
105
100
95
90
85
80
Covid low
Jan 17
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24


ISM manufacturing index, advanced two months (Left)
Manufacturing output ex-autos, 3m/3m ann., % (Right)
75
70
65
60
55
50
45
40
35
30
18
15
12
9
6
3
0
-3
-6
-9
-12
-15
Covid extremes cut from chart
14
15
16
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