

Macro Report – Data Comment

US July industrial sector continued to expand

- Industrial production continued to recover, up 3.0% mom in July
- Auto production made the largest contribution with a 28.3% surge
- Aerospace and energy sectors are miles away from recovery

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What's new. On August 14, the Federal Reserve reported that industrial production in the US rose 3.0% mom in July (consensus: 3.0%), down from 5.4% in June. Manufacturing production increased 3.4% mom, above the consensus of 3.0, slowed from 7.2% in June. The figures show the US industrial sector continued its steady recovery in July, while the manufacturing expansion is consistently with the July ISM survey data. However, unlikely retail sales, despite the recent gain, industrial output remains 8.4% below the pre-COVID level in February.

Auto production led the rebound. Consumer durable goods production rebounded 14.6% mom July, slowed from June's 40.8%, but remained at a robust pace. This mainly reflects the rapid pick up of consumer demand on durable goods after the lockdown lifted. Among which motor vehicles and parts production surged again by 28.3% mom, down from 118.3% in June, but that figure was too high to be sustainable. Auto production is already back to the pre-pandemic level now, and given the latest retail figure suggesting auto retail sales had stalled in July, we suspect auto production is also likely to lose some momentum over the coming months. Elsewhere, transit business equipment rebounded 24.1% mom (June: 74.6%), while consumer parts materials rose 15.4% mom (June: 46.6%)

Total manufacturing production continued to recover in July but is still 8% short of the February level. Aerospace and transport equipment output increased 7.5% mom but remained 20.5% lower than the level of a year ago. Given the latest announcement from Boeing of reducing production to only six per month for 787 and two per month for 777/777X, and the FAA is yet to re-approve the 737MAX series, we reckon aerospace output is likely to stay depressed over coming months.

Mining production growth finally back to positive territory, increased by 0.8% mom in July, after five consecutive months of decline, and remains 18.4% below the pre-pandemic level. However, oil and gas well drilling output is still in terrible shape, down again by 8.0% mom in July, after five months of slump, it is now 79% short of the February level. Utilities production grew 3.3% mom in July, where electric made the main contribution (3.9% mom), as unusually warm temperatures increased the demand for air conditioning.

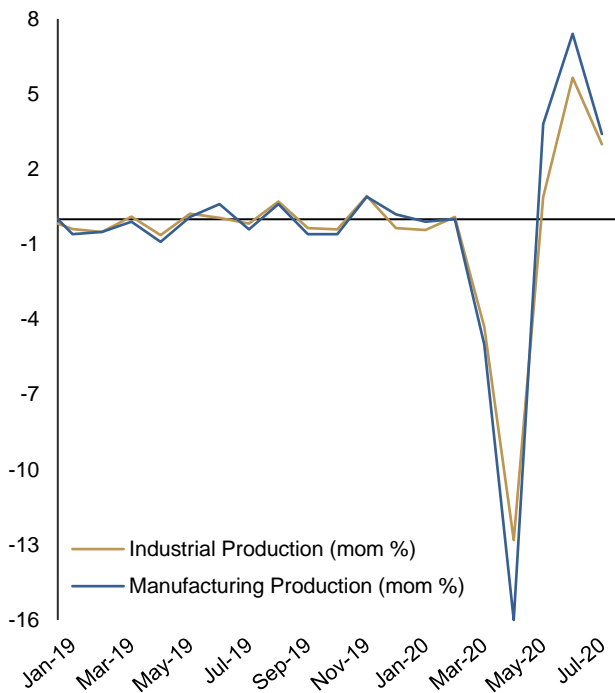
Capacity utilisation increased to 70.6% in July from 68.5% in June, better than the consensus of 70.3%, but remains far below the February level of 76.9%. Yet utilities utilisation climbed above the pre-pandemic level due to excessive use of electricity, mining capacity is 15.6pts below February.

Our view: Looking ahead, industrial production has recovered steadily in the last three months since lockdown lifted, despite it remains well below the pre-pandemic level. However, the output recovery so far is mainly due to the previous shutdown of factories and accumulated backlogs created by the initial pent-up demand. Latest retail sales data shows consumer spending had lost some momentum in July, hence downside risks remain sizable despite the continued slow pace of rebound in industrial sector.

Related Research

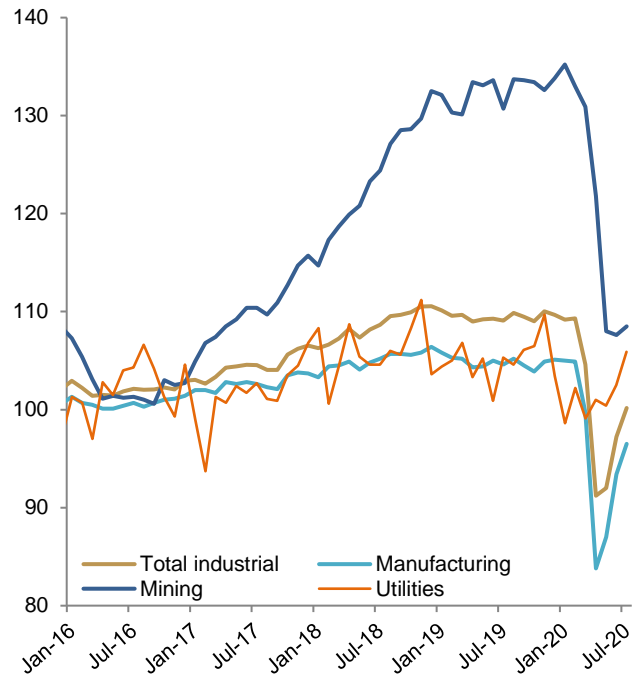
1. US July retail sales growth showed material slowdown (15 Aug 2020)
2. US July consumer prices rebounded robustly (13 Aug 2020)
3. US job gains slowed in July, but saw no reversal (8 Aug 2020)
4. Becoming II: a study of US presidential election (6 Aug 2020)
5. US July ISM manufacturing index climbed further (4 Aug 2020)
6. US 2Q GDP recorded historical plunge (31 Jul 2020)
7. Fed offered downbeats but no further forward guidance (30 Jul 2020)
8. US durable goods order show improved investment (28 Jul 2020)
9. US June retail sales offered further upbeats (17 Jul 2020)
10. US June employment beat expectation (3 Jul 2020)

Figure 1: Industrial Production Monthly Change



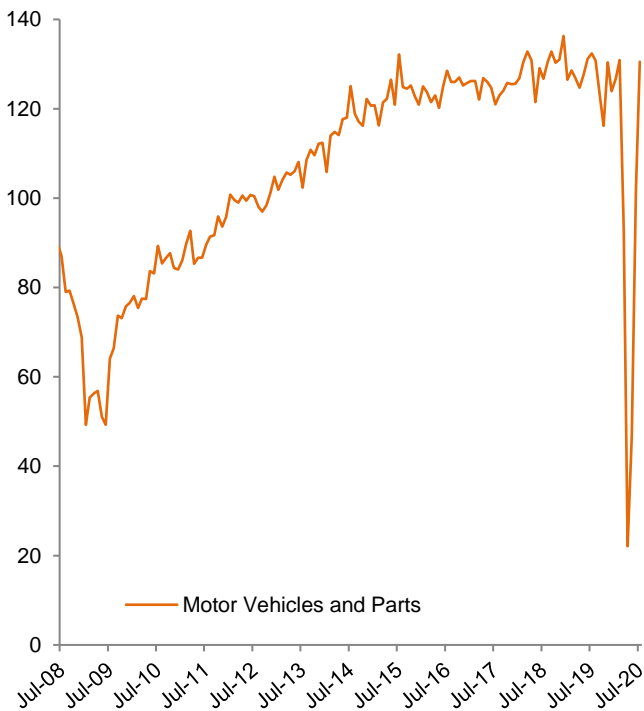
Sources: Bloomberg, CMS (HK) Research

Figure 2: Output Levels by Industry Groups



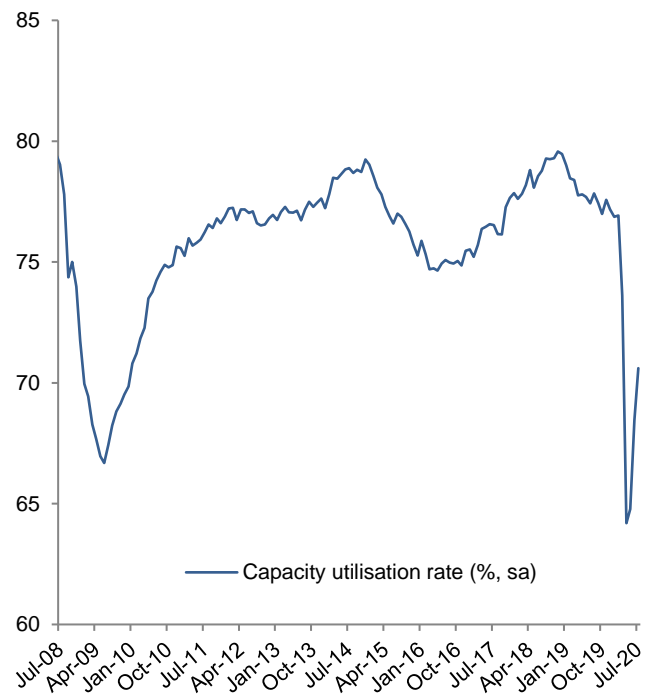
Note: all indexes, 2012 = 100, seasonally adjusted
Sources: Bloomberg, CMS (HK) Research

Figure 3: Auto Production Back to February Level



Note: all indexes, 2012 = 100, seasonally adjusted
Sources: Bloomberg, CMS (HK) Research

Figure 4: Industrial Capacity Utilisation



Sources: Bloomberg, CMS (HK) Research

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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