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UNITED STATES

US industrial activity on a roll

US manufacturing is performing strongly with output gains led by advanced technology production, pharmaceuticals, chemicals and energy. However, more commoditised production, where it is difficult to justify paying extra for a 'made-in-America' premium, is struggling



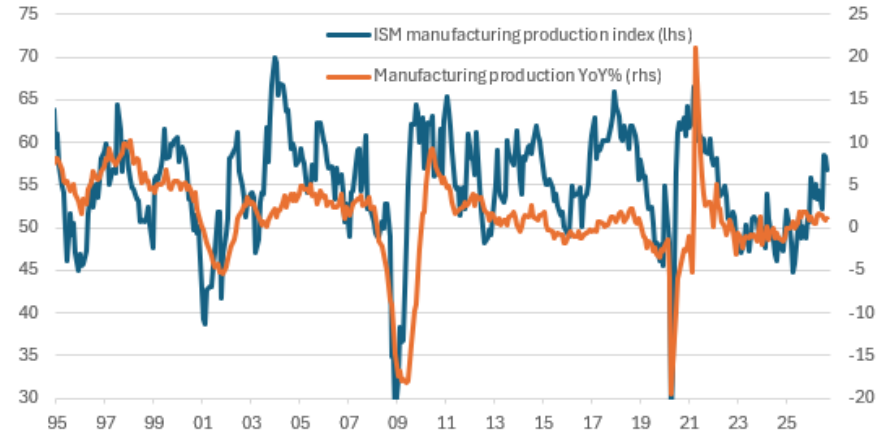
US manufacturing is gaining momentum, especially in terms of technology and artificial intelligence

Manufacturing is gaining momentum

Today has seen the release of another decent US industrial production report. September output rose 0.7%MoM/2.2%YoY plus there was a 0.1ppt upward revision to August's growth rate (consensus was looking for a 0.4% gain overall). Manufacturing did OK, rising 0.3% month-on-month, especially when we consider that auto volumes fell 3%, while utilities surged 3.5% MoM as output is ramped up to meet demand from data centres and expanding manufacturers. Mining was up only 0.2% MoM.

The sector has struggled in recent years with stagnant output, but the business surveys have all been pointing to an improving picture. The chart below shows the relationship between manufacturing output and the ISM manufacturing series, with the latter suggesting further decent gains are likely. The labour market data tells a similar story with 72,000 manufacturing jobs added year to date, after three consecutive years of net job losses in 2023, 2024 and 2025. Average weekly hours worked in the sector are at a 3.5-year high of 40.6.

US ISM manufacturing index and official manufacturing production growth YoY%



Source: Macrobond, ING

Tariffs, tech and energy security are all supporting

So why is US manufacturing doing so well? Tariffs on foreign-made products and energy security do boost the attractiveness of manufacturing in the US. But so does US economic growth continuing to outperform other key markets. Between 2023 and 2026, the US economy has grown an average of 2.5% year-on-year in volume terms versus 0.9% in Europe.

At the same time, the US Administration believes maintaining the lead in the AI/technology frontier is imperative for both economic and national security, given competition from China. Rapid AI adoption is leading to robust construction of data centres, boosting electricity demand and spurring investment across the power supply chain, from generation and transmission to electrical equipment.

As we can see in the chart below, high value-added or advanced manufacturing, within which we group tech, electronics, transport and power-related sectors, has significantly outperformed other sectors. We expect this story to continue. We also see defence as a sector that should continue to post strong growth. As more countries increase military spending, US companies may benefit from strengthening order books.

Tech versus non-tech manufacturing output (Dec 2007 = 100)



Source: Macrobond, ING

Traditional, labour-intensive, commoditised manufacturing sectors continue to shrink under pressure from foreign competitors. Here, tariffs are not enough to provide the competitiveness boost needed to offset the high cost of production in the US. These US producers are also often detrimentally impacted in foreign markets by retaliatory tariffs.

Bifurcation set to intensify

As we outlined in our latest manufacturing outlook , highly automated, high-value-added sectors at the forefront of the AI/technology revolution will continue to perform strongly. The desire to incorporate AI advances should, in theory, drive advances in productivity-enhancing initiatives that further support innovation. As such, pharma, tech, transport & aerospace, electrical and power-related sectors should continue to grow robustly. Lower value-added production, where labour costs make up a greater share of the overall cost base of production, will continue to struggle unless it can garner a 'made-in-America' premium.

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