

United States

Manufacturing enjoys renewed upturn amid firm domestic demand

- Official data show improving underlying growth of manufacturing output
- Official data follow upbeat business survey data, which point to rising production trend
- Domestic demand providing key driver of growth

US factories reported a further improvement in production at the start of 2017, corroborating earlier survey data showing the sector to be enjoying a turnaround fuelled by rising domestic demand.

Official data showed manufacturing output rising 0.2% in January, building on a 0.3% rise in December. The latest numbers mean production has risen 0.5% in the latest three months compared to the prior three month period, a rate of expansion that has not been exceeded for two years.

Even more encouraging was the fact that this improved performance occurred despite a 2.9% drop in motor vehicles and parts production in January, likely to have been caused by a temporary inventory adjustment. Manufacturing excluding high technology and motor vehicles firms (core manufacturing) reported its best month since November 2014, with production up 0.5%.

The official data come on the heels of [PMI survey data](#), which provided advance notice of the solid start to the year. IHS Markit's survey showed factory output growth at a near-two year high in January, propelled higher by the fastest order book growth for 28 months.

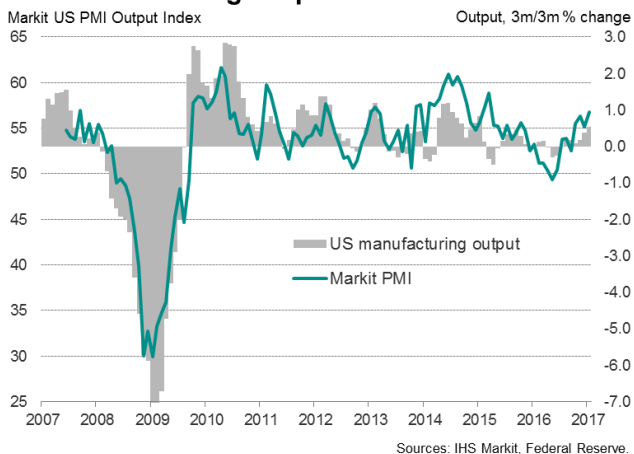
The survey also found inventories were rising at a rate not seen for nearly a decade as firms respond to higher demand, suggesting the goods-producing sector will make a decent contribution to first quarter GDP.

Dig down deeper in the survey data and there were even more encouraging signs of the upturn's resilience, as new orders for both consumer and investment goods, such as plant and machinery, rose at strong rates, driven predominantly by surging domestic demand.

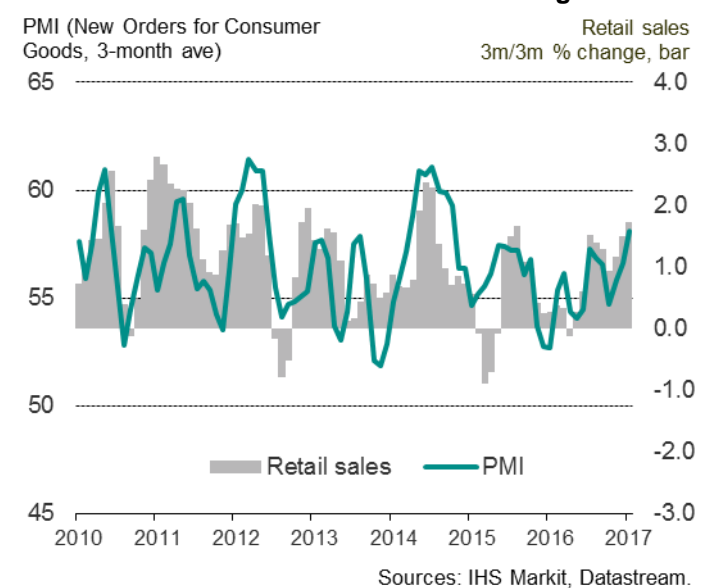
The rise in investment goods orders was the largest for nearly two and a half years and points to an increased appetite for US firms to boost their capex and expand capacity

The increase in orders for consumer goods was meanwhile the second strongest in over two years and pointed to a marked increase in demand from domestic consumers. Not surprisingly, official data have subsequently showed retail sales rising at a solid rate again in January. The latest three months have seen the second-largest increase in retail sales for over two years.

US manufacturing output v Markit PMI



US retail sales & PMI orders for consumer goods



The next major update on the health of the US economy is available on 21st February, when the flash PMI surveys will provide insights into growth, employment and inflation across the economy in February.

Chris Williamson

Chief Business Economist

IHS Markit

Tel: +44 207 260 2329

Email: chris.williamson@ihsmarkit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.ihsmarkit.com