

## US: The job's not done...yet

Three interest rate cuts and easing trade tensions have calmed fears about a potential US recession, but we think the market's reaction is excessive. With the economy decelerating and politics likely to remain a source of uncertainty, we believe the Federal Reserve has more work to do to ensure a slowdown doesn't become more severe



President Donald Trump shakes hands with Federal Reserve chairman Jerome Powell

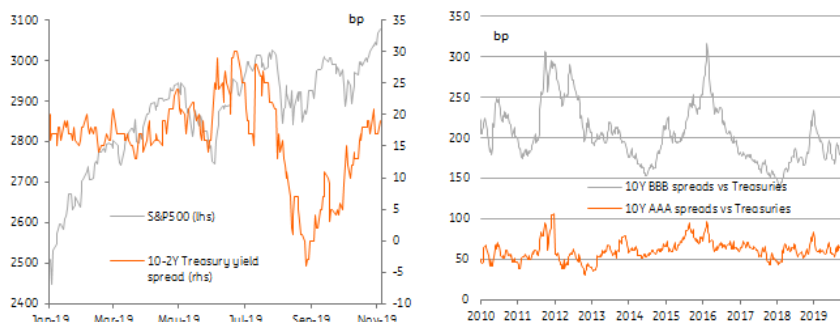
Source: Shutterstock

### Markets are in a happy place

Looking at financial market moves since the summer you would have to say that policymakers and politicians have done a fantastic job in calming nerves about a potential US downturn. August was a rocky month with equity markets coming under pressure and the US 2-10-year Treasury yield spread inverting – a signal that typically portends a recession.

But now, markets seem to be of the view that the three rate cuts from the Federal Reserve and the easing of US-China trade tensions, backed up by stimulus elsewhere and better optics on European politics (think Brexit and Italy) means a potential crisis has been averted. After all, equities are up at all-time highs, the yield curve has re-steepened, credit spreads have narrowed and the dollar remains the currency of choice.

## Equity and bond market optimism returns



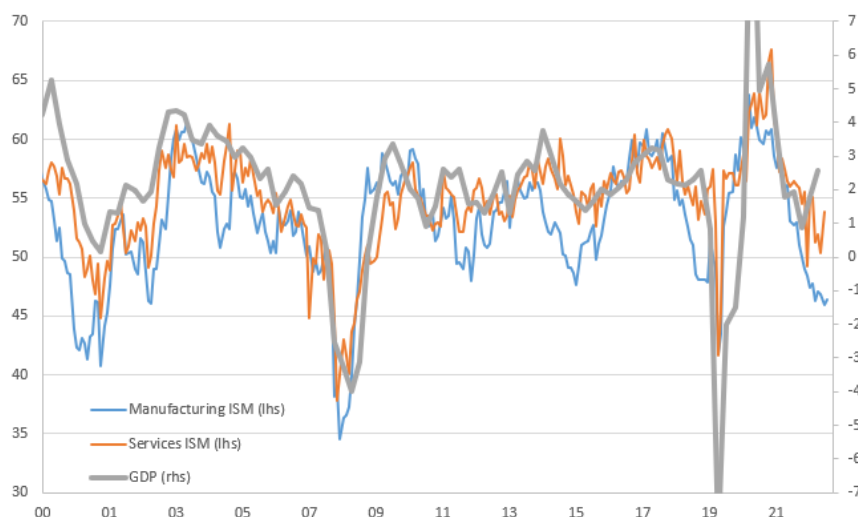
Source: Macrobond, ING

## But we remain cautious

Unfortunately, we have our doubts on how sustainable this is and think there is more work to be done. The troubles facing manufacturing are plain to see. Weak global growth and trade tensions have hurt demand and sentiment with the headwinds from a strong dollar compounding the problems for US manufacturers. The ISM manufacturing index has been in sub-50 contraction territory for three consecutive months with the production component at its lowest level since 2009 while official figures show manufacturing output is down 1.6% year to date.

There is evidence that the weakness in this sector is spreading with the ISM non-manufacturing index on a softening trend and the National Federation of Independent Businesses survey at its lowest level since Donald Trump won the presidency. Moreover, business investment has contracted for two consecutive quarters with the durable goods orders report suggesting we could see a third consecutive fall in 4Q.

## ISM indices point to slower growth



Source: Macrobond, ING

## The economy is slowing, but a recession looks less likely

This indicates that businesses are reluctant to put money to work and it tallies with the slowdown in employment growth seen over the past eighteen months.

Having averaged 223,000 jobs per month throughout 2018, employment creation is running at a net 167,000 for 2019. The slowdown would have been even more marked had it not been for consecutive gains of 48,000, 45,000 and 61,000 in the leisure and hospitality sector. The fact that this one, relatively modest-sized (and lower-wage and lower-skilled) component was responsible for 30% of all the jobs created in the past three months underlines the weakness in other sectors.

---

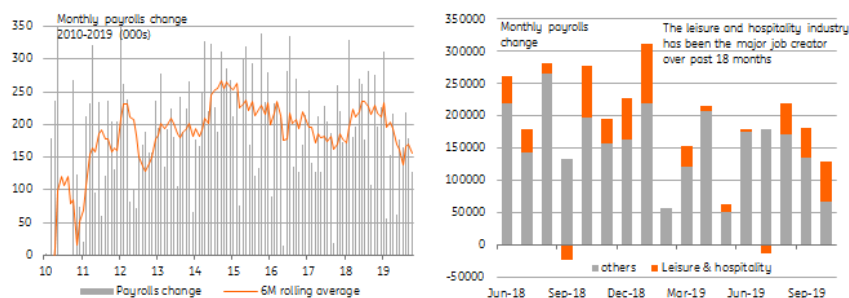
*For now, the story is one of a gradual slowdown in US growth rather than a recession*

---

The news from the consumer sector also hints at slowing growth, albeit from a firm rate. Retail sales have recently been soft and auto sales are weaker in October while consumer confidence is off its highs. With wage and payrolls growth both looking relatively modest, real household disposable incomes don't signal a major upturn in spending growth is likely. Meanwhile, the sharp increases in longer-dated Treasury yields is pushing up mortgage and other borrowing costs, which will be a headwind for consumer activity more broadly.

For now, the story is one of a gradual slowdown in US growth rather than a recession. As such the Fed has signalled a preference to pause for a while after cutting rates in July, September and October. Fed Chair Jerome Powell suggested "monetary policy is in a good place" and that they want to take stock of the impact of their actions before considering additional stimulus, which clearly hints at "no change" at the December meeting.

## The jobs market is showing vulnerabilities



Source: Macrobond, ING

## Key risks remain

It's worth noting recent data flow has been consistent with that narrative. After all, the ISM non-manufacturing index has improved a little and the October payrolls report was not as bad as feared. With the November payrolls report set to be lifted by 40 - 45,000 after the end of the General Motors workers strike, the data should stay consistent with stable policy in December.

Moreover, the US and China look set to sign a phase one deal on trade that suspends proposed tariffs in exchange for China buying more US food and agricultural products, which is boosting sentiment. In fact, there has been some talk about the potential rolling back of some of the tariffs already implemented - the 15% tariff on around \$111bn of Chinese imports (largely consumer goods) that came into effect on 1 September.

---

*We think it is too soon to sound the all-clear on downside US growth risks and with inflation and inflation expectations looking benign we continue to see scope for the Fed to cut rates twice more*

---

It would be in response to China making concessions on rules regarding currency manipulation and potentially also offering concessions on intellectual property protection. It would make the deal broader than initially envisaged, although we would caution that this proposal could yet be dropped with some in the US administration vocally opposing a rollback of tariffs. Either way, it would still leave significant tariffs and barriers to trade in place so it would be more of a stabilisation of relations rather than a major boost to growth at this stage.

There are other trade-related political risks. President Trump has to make a decision on whether to implement tariffs on EU made cars and car parts after postponing the decision in May. At this stage we suspect he will postpone again, not least because there is growing recognition over how significant European carmakers are to US manufacturing - for example, the BMW Spartanburg plant in South Carolina has been announced as the biggest US auto exporting plant for the fifth year in a row, and there have been significant investments by other European automakers within the US.

There is also the potential for another government shutdown with the latest short-term spending bill set to expire on 21 November. If Congress and the President can't agree a year-long budget that would get the US through to next year's elections then there is the possibility of government workers being sent home soon after Thanksgiving. We would assume neither side wants to risk taking the blame for an unnecessary and economically damaging situation to develop, but the impeachment process against President Trump could increase tensions and make reaching an agreement more challenging.

Recession risks have declined in the US, but the loss of economic momentum is clear and there is little to suggest we should expect an imminent re-acceleration in growth. Moreover, asset markets have reacted very positively to news of a trade truce and better news about Brexit and European risks. However, as you will see, our team is less sanguine about these threats.

Consequently, we feel markets and the global economy are likely to experience more bumps in the road. We, therefore, think it is too soon to sound the all-clear on downside US growth risks and with inflation and inflation expectations looking benign, we continue to see scope for the Fed to cut rates twice more.

## Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.