

## US: It's not all bad...

Manufacturing may well be in a recession, but more domestic and consumer-orientated sectors are performing well. In such an environment the Federal Reserve will remain reluctant to deliver the scale of easing demanded by the President and priced by markets

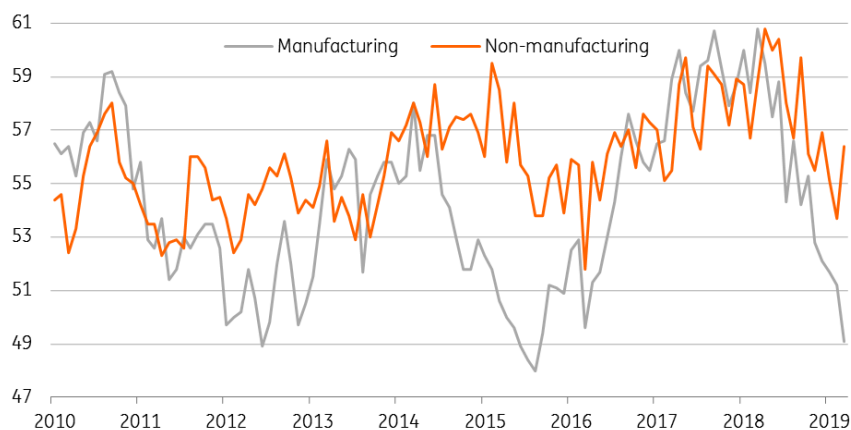


Two women wave US flags

Despite the current doom and gloom surrounding trade and manufacturing, today's US ISM non-manufacturing survey and yesterday's Federal Reserve's Beige book offered evidence that other parts of the economy continue to grow strongly.

The ISM headline rose to 56.4 from 53.7, beating even the most optimistic forecast in Bloomberg's survey pool. Business activity and new orders both bounced back to their strongest level since February with employment also rising nicely. This positive narrative was also described in yesterday's Beige Book, which while acknowledging manufacturing's struggles, suggested that "the majority of businesses remained optimistic about the near-term outlook" while non-financial services saw "similar or improved activity versus six weeks before".

## Manufacturing and non-manufacturing ISMs diverge



Looking to tomorrow's US jobs report the drop in the ISM manufacturing employment index is consistent with manufacturing payrolls falling by around 10,000. However, the improvement in the non-manufacturing survey and the very robust 195,000 increase in ADP employment today still points to a decent figure for non-farm payrolls overall – we are forecasting a 170,000 increase versus the 160,000 consensus.

As such, the US economic data suggests that the domestic-focused, consumer-orientated parts of the US economy continue to perform well while the more international and manufacturing-related parts of the economy are struggling. This is clearly a quandary for the Federal Reserve who appear reluctant to acquiesce to Presidential demands and market expectations of aggressive cuts to interest rates. Of course, trade discussions remain critical to the outlook. Should we get a positive conclusion then this can remove a dark cloud hanging over the global economy, but should they fail then the gloom in manufacturing may increasingly spread through the economy. For now, we continue to look for 25bp Federal Reserve rate cuts in both September and December.

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