

## US: A polarised nation

The latest economic and political newsflow highlight the divides in the US. Presidential impeachment hearings are set to go ahead so there is little prospect of any bipartisan policy agreements ahead of the November 2020 election. With trade and global growth worries lingering, markets will continue to look to the Federal Reserve to provide support



Former Vice President Joe Biden and President Donald Trump

Source: Shutterstock

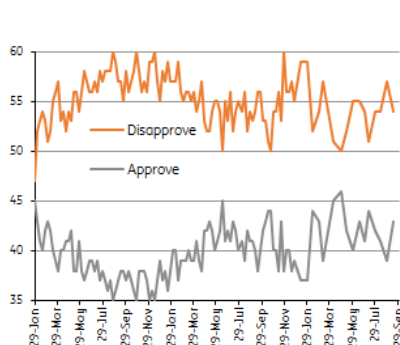
### Presidential impeachment to go ahead

The biggest development since our August update has been that House Democrats have initiated impeachment proceedings against President Donald Trump. This follows reports that he withheld state aid to Ukraine before calling on Ukrainian President Volodymyr Zelensky to investigate Hunter Biden, the son of former Vice President Joe Biden.

No Republican senator has yet expressed support for impeachment and 20 Republican votes (nearly 40% of their caucus) would be needed. Among Republicans, support for impeachment is only around 10-15%, which is insufficient to force Republican senators, and Democratic senators in heavily Republican states, to convict President Trump. Only clear evidence of wrongdoing which significantly sways public opinion is likely to change the vote in the Senate.

Our view remains that President Trump will contest the November 2020 elections.

## An unpopular President, but it could be worse...



Donald Trump versus previous president approval ratings at same point in presidency

- Dwight Eisenhower 71% (Sep 1955)
- George H W Bush 68% (Sep 1991)
- John F Kennedy 56% (Sep 1963)
- George W Bush 51% (Sep 2003)
- Ronald Reagan 47% (Sep 1983)
- Bill Clinton 46% (Sep 1995)
- Donald Trump 43% (Sep 2019)**
- Barack Obama 41% (Sep 2011)
- Jimmy Carter 32% (Sep 1979)
- Richard Nixon n/a (Sep 1971)

Source: Gallup, ING

## Gridlock in Washington set to continue

As to whom he faces, the Democrat candidature race is seemingly between the centrist Joe Biden and the more progressive Elizabeth Warren and Bernie Sanders.

Joe Biden is leading in opinion polls, but a prolonged impeachment process risks constant association of his name to the story about corruption and that could be damaging. Nonetheless, the partisan nature of the impeachment also means that his Democrat rivals will likely have to show strong support for him through this process. We have recently updated [our scenarios](#) for the economic and political implications of next year's election.

In the near term, tensions in Washington mean less prospect of approval of meaningful infrastructure spending or further healthcare reform. It may also hold up the US-Mexico-Canada Agreement on trade and a potential future UK-US trade deal given these deals will need to be approved by the House and Democrats may be reluctant to give Trump a "win".

[What are the chances of President Trump's re-election in 2020? Here are our scenarios](#)

## Manufacturing versus services

Economically, the US is just as split. Worries over weaker global growth, the impact of trade tensions and the strength of the dollar, which is eroding US companies' international competitiveness, are all acting as a major drag on the manufacturing sector. Higher tariffs are putting up costs and hurting supply chains, leading to weaker corporate profitability. This is now clearly damaging sentiment and making firms more reluctant to invest and hire new workers.

---

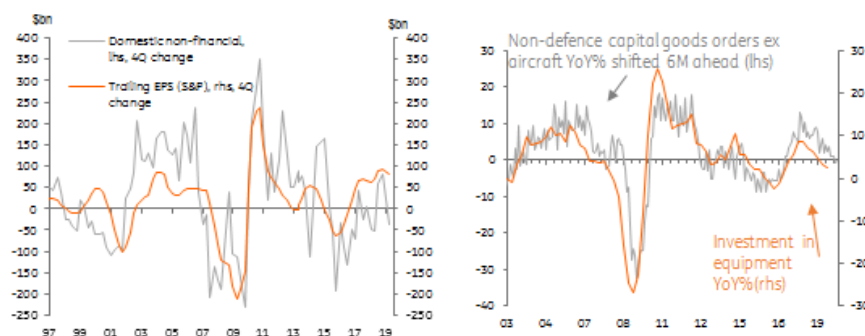
*Economically, the US is just as split*

---

The GDP measure of corporate profits, which is a broad measure of business profitability, swung into negative territory in 2Q19, which is clearly not a positive signal. Then we had the durable

goods orders report, which is now indicating that domestic equipment investment is set to head into negative territory. Added to this we have seen payrolls growth slow from 223,000 per month in 2018 to 158,000 per month so far in 2019. This is the weakest rate of employment growth since 2010.

## Profits and orders point to a slowdown in investment and hiring



Source: Macrobond, ING

## Although cracks may be forming

Despite this, the service sector economy remains resilient thanks primarily to the strength of consumer spending. Employment growth is slowing, but it is important to remember that it is at record levels and wages are rising. Households, therefore, have a sense of job security and the confidence and the cash flows to spend.

This has been reflected in strong retail sales growth, but also increasingly in a pick-up in home sales. Housing transaction typically has a strong correlation with other economic indicators, such as construction figures and home furnishing sales figures so the consumer sector looks set to continue being a key support for US growth.

That said there are some signs of cracks forming. Recent consumer confidence readings have softened and rising inflation is potentially becoming more of an issue. Meanwhile, an increasingly acrimonious domestic political situation could be another reason for households and businesses to become less positive.

## Trade headlines to drive sentiment

Trade policy remains critical to the medium-term outlook for US economic activity. Talks between the US and China resume on 10 October and while there have been words of encouragement from both sides, we doubt anything meaningful will result at this stage. China is using domestic stimulus to support growth and does not appear inclined to give in to President Trump's demands on intellectual property and market access.

There has been some speculation surrounding a potential "mini-deal" that involves China importing more US farm products in exchange for a postponement of additional tariffs in October and December, but this too has been dismissed by members of the US Administration. As such we expect to see trade tensions linger, which will continue to weigh on both US and global economic sentiment and risk appetite.

## Federal Reserve to offer more "insurance"

Given this environment we expect the Federal Reserve to remain wary about the economic outlook and stand ready to cut interest rates further.

We expect to see another 25bp interest rate cut in December with a further 25bp move in 1Q20 as the weakness in US manufacturing and the global economy are increasingly felt in other sectors.

A slowdown in US activity, weaker employment growth, flagging equity markets and the threat of a long and attritional impeachment process may make the President more inclined to agree to a deal with China in early 2020. After all, President Trump wants to get re-elected and with opinion polls not looking particularly encouraging for him he may be willing to compromise to deliver a "win". If this happens, we suspect there will be a bounce in sentiment as a dark cloud that has been hanging over the global economy gets blown away.

Time will tell if that provides enough of a boost for him to get re-elected, but opinion polls suggest he may have to move sooner rather than later.

### 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>.