

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

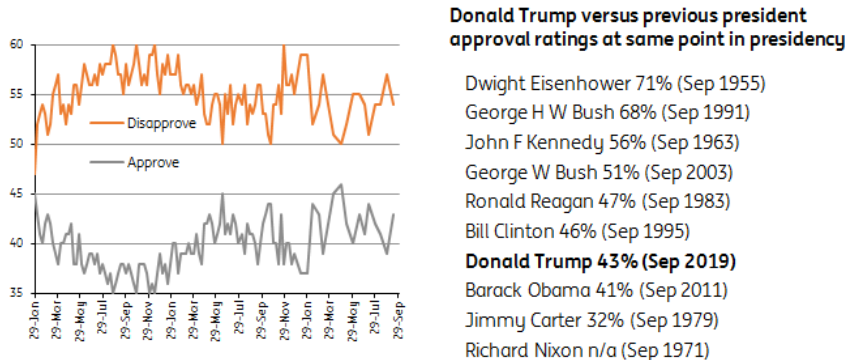
Presidential impeachment to go ahead

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...



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

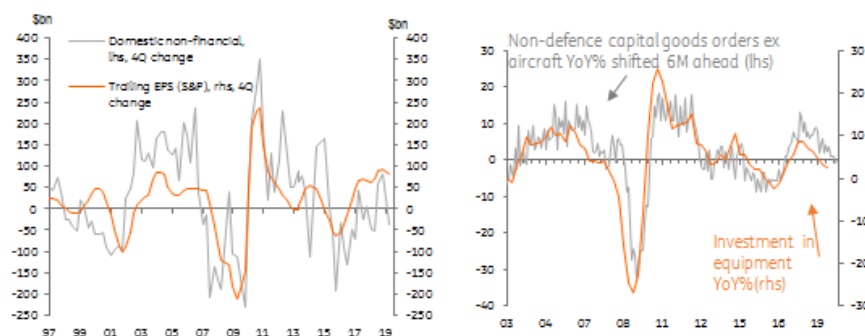
Economically, the US is just as split. Worries over weaker global growth, the impact of trade tensions and the strength of the dollar, which is eroding US companies' international competitiveness, are all acting as a major drag on the manufacturing sector. Higher tariffs are putting up costs and hurting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

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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.

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