

US: Signs of cracks?

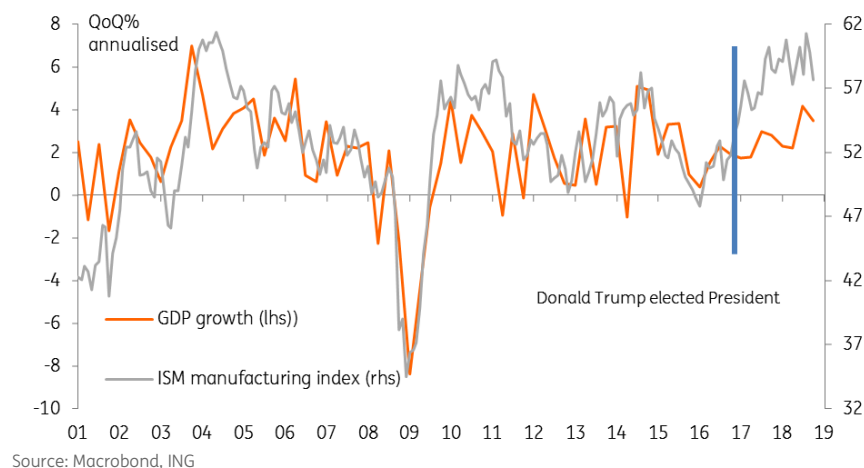
The US ISM manufacturing survey continues to suggest the economy is performing well, but there is perhaps a bit more evidence the US is starting to feel the negative effects of trade uncertainty, higher interest rates and the stronger dollar



Source: Shutterstock

The manufacturing ISM dipped to 57.7 in October (consensus estimate 59.0) versus 59.8 in September. This is a six month low, but the index remains at strong levels historically.

The chart below shows that these sorts of readings are typically consistent with GDP growth of the order of 5%. Admittedly, the relationship hasn't been great since Donald Trump has taken over as President, but we can still infer that the US corporate sector is in good shape, supported by tax cuts and a robust domestic economy.



The details of the report show that production and new orders both fell by around four points. This is consistent with numbers seen in some of the other purchasing managers' indices reports from around the world along with the US durable goods report. It perhaps hints of a slight loss of momentum on the back of trade protectionism and concern over what this could mean for supply chains. Indeed, export orders fell to their lowest level since November 2016.

The employment component is at 56.8 versus 58.8, which is still very healthy and backs up the firm ADP payrolls figure from yesterday. This all points to a decent non-farm payrolls figure tomorrow. However, we have little confidence in our 200k forecast for that report given the conflicting impacts/timings of Hurricanes Florence and Michael which could wildly influence the report. The key figure to watch will be wages which should finally break above 3%YoY.

In general, US data continues to point to a respectable 4Q GDP figure after very good 2Q and 3Q outcomes. However, US growth will likely slow through 2019, though as the support from fiscal stimulus fades and tighter monetary conditions and trade uncertainty weigh on activity.

That said, the jobs market, rising worker pay and above-target inflation suggest the Federal Reserve will remain in tightening mode for much of 2019. We still look for a December 2018 rate hike from the Fed with further 25bp rate moves in each of the first three quarters of 2019.

Author

James Knightley

Chief International Economist, US

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 www.ing.com.