

## US: Signs of cracks?

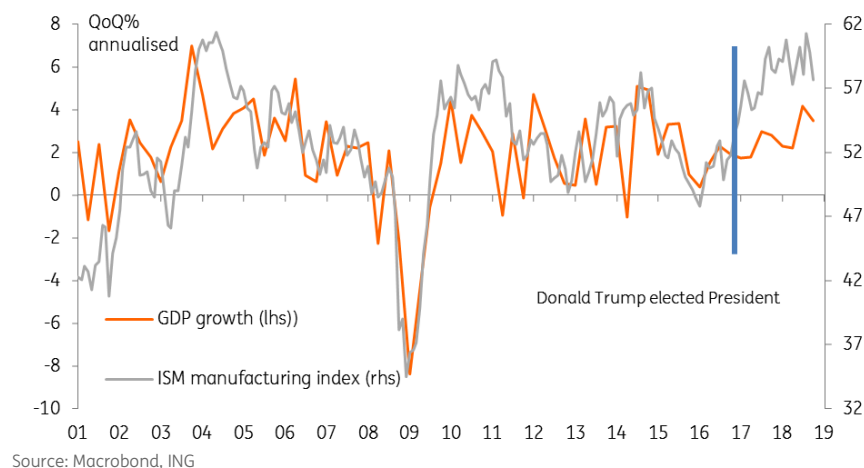
The US ISM manufacturing survey continues to suggest the economy is performing well, but there is perhaps a bit more evidence the US is starting to feel the negative effects of trade uncertainty, higher interest rates and the stronger dollar



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.

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