Economy

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Will the Rust Belt vote for Donald Trump again?

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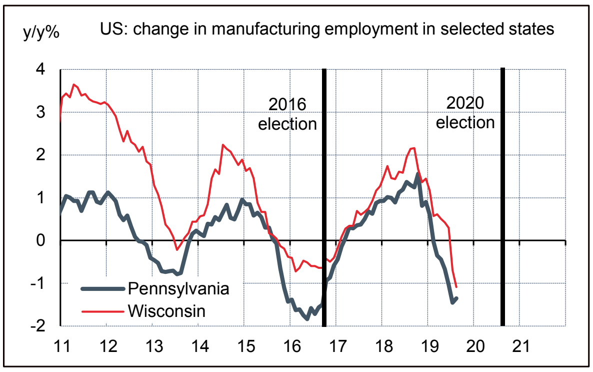
In 2016, Donald Trump won the US presidential election thanks to the industrial Rust Belt states. His protectionist message was even more appealing at that time as the industrial sector was in recession, with attendant job losses. In some of these swing states, voters may have wanted to punish the Democrat administration. Industrial activity recovered in 2017 and 2018, but is experiencing difficulties again. The trade war with China is apparently not that easy to win, and there is no broad move to repatriate industrial jobs.

The week's focus

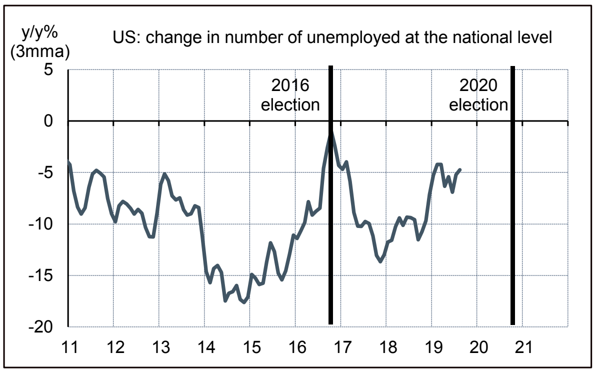
Donald Trump's election in 2016 owed much to his victories in several northeastern industrial states (the Rust Belt) such as Pennsylvania, Michigan, Wisconsin and Ohio. Manufacturing accounts for 8.5% of total employment nationwide but this share is 9.5% in Pennsylvania and 16% in Wisconsin. We know how uncertain the outcome of the election was right to the very end, but in hindsight various political analysts saw Donald Trump's protectionist and pro-industrial message as key to his victory. The situation was ripe for such a message as US industry had entered recession in Q1 2015, which persisted until Q2 2016. Employment in manufacturing fell in the period, notably in the main swing states (chart lhs). The weakness of the industrial sector was such that it left a mark on employment conditions nationwide. At the time of the election in November 2016, the number of unemployed had practically ceased to decline for the first time since the crisis (chart rhs).

With the next election just one year away, what is the situation? In absolute terms, the US economy is in better shape. The last three years have extended the expansion, unemployment has fallen to 3.7% (vs 4.7% in November 2016), and net household wealth has increased by $ 17 trillion. Recent momentum, however, has been weaker. Growth is slowing, and as often happens, the trend is amplified in the industrial sector. In the last few months, industrial employment has fallen in the Rust Belt and the total number of unemployed is declining less quickly. What is more, industrial firms blame the gloom on trade uncertainties, which are a direct result of Donald Trump's policies. He had promised to use tariffs as a weapon to bring industrial jobs back to the US but the strategy has not worked. With one year to go to the election, everything is still to play for (as the recent "Ukraine affair" shows). For a president seeking re-election, it would make sense to try to boost the economy. For want of a fiscal stimulus, which would require cooperation from the Democrats, Donald Trump might try to put the trade war on hold. Is he capable of such an about-turn?

US: manufacturing jobs in Pennsylvania/Wisconsin



US: change in the number of unemployed



Sources: Thomson Reuters, Oddo BHF Securities

Economy

- According to the preliminary estimate of **September**, the PMI indices of purchasing managers confidence rallied a little in the manufacturing sector to 51 points (+0.7) and in services to 50.9 (+0.2 after -2.3 in August). These levels are amongst the lowest since the cold snap in industry end-2015-early 2016. Backlogs are continuing to dwindle. The Markit survey noted a contraction in jobs in the services sector for the first time in ten years. We are fairly dubious about this point. If it were true, the labour market would have shown a sharp deterioration, and this would have been reflected in jobless claims. This is not the case. At **21 September**, jobseeker claims were at 213,000, shy of their average for 2019 (217k), 2018 (220k), 2017 (244k), 2016 (266k), etc.
- According to the Conference Board consumer survey, the "*jobs plentiful – jobs hard to get*" indicator in **September** corrected its surge the previous month (-5.1 points after +5.2), but nevertheless is still at one of its highest levels in around 20 years. More generally, the consumer confidence index seems to have reached a plateau and is dipping slightly. The recent jump in gasoline prices (+4% last week) might have contributed to this, but there has been no further increase in the absence of military escalation in the Persian Gulf.

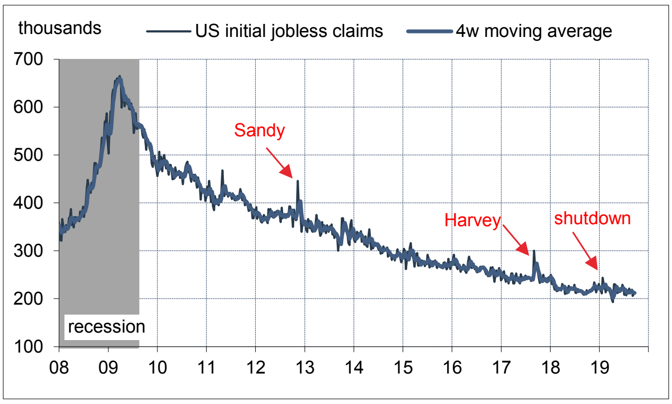
Monetary and fiscal policy

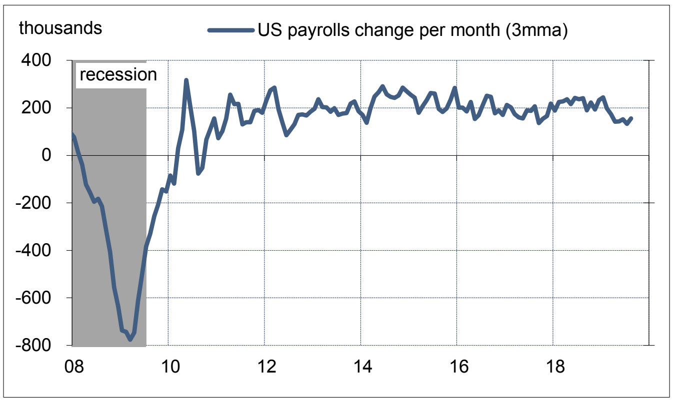
- After the (mini) liquidity crisis of **17 September**, the NY Fed's actions have come under close scrutiny. Many players on the monetary market deemed the initial reaction late, triggering a bout of predictions that the bank sector was in for a "*repocalypse*". On **23 September**, John Williams, the president of the NY Fed, justified the Fed's hesitancy by the need for a detailed analysis of the first signs of tension so that the best possible response could be found. The central bank's actions are more important than this self-serving claim. To quell the tension, the Fed has embarked on a programme (running until **10 October**) of daily liquidity injections of $ 75bn on the repo market. This figure was raised to $ 100bn on 26 September. In addition, 14-day operations are being carried out, with $ 30bn on 24 October (demand: $ 62bn), $ 60bn on 26 (demand: $ 72bn) with others still to come. Looking beyond this short-term reaction, Mr Williams acknowledged that the Fed will have to assess more effectively the amount of liquidity necessary, which could lead to a review of the "organic growth" of the Fed's balance sheet (not to be confused with the relaunch of a QE programme). In hindsight, it would appear that the tensions in the repo market stem in part, and possibly above all, from the poor circulation of liquidity between the institutions operating in the US market, which differ in size and nationality. The new regulatory requirements for liquidity are also sometimes a focus of criticism. For now, the amount of cash held by US banks is $ 1.54tn ($ 1.45tn is in reserve at the Fed), a drop of 23% y-o-y due to the reduction in the central bank's balance sheet.
- Although the event is strictly speaking political, we are bound to highlight the fact that the House on **24 September** officially opened an investigation to impeach the US president in connection with the alleged pressure exercised by Donald Trump on the Ukrainian president to obtain unfavourable information on Joe Biden, who is currently the front-runner in the Democratic nomination. The transcript of the discussion confirms that the "Biden case" was alluded to several times by the two presidents. The link with potential military aid by the US for Ukraine has still to be proven. At the end of the day, any impeachment proceedings will need to be approved by two-thirds of the Senate, which is currently dominated by the Republicans (53%). Clearly, the procedure is a long way from actually materialising, but it is set to be a focus of attention for a while. Could this distract Donald Trump from one of his favourite pastimes, namely unsettling world trade and creating uncertainty and volatility into the bargain?

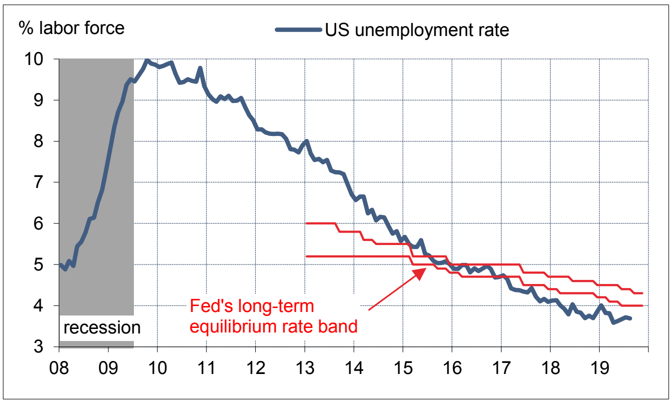
The week ahead

- After the disappointment around job creations in August (+130,000) and given the current market jitters, the jobs report for September (**4 October**) will be a key means of gauging the US cycle and the outlook for monetary policy. The probability of a rate cut from the Fed at the meeting on 30 October has dropped from 80% mid-August to around 50% recently. According to Bloomberg, expectations point to a net gain of 140,000 jobs and stable unemployment at 3.7%. Other key figures to monitor include the ISM-manufacturing index which dropped to 49.1pt last month and the non-manufacturing index which surprisingly rebounded in August (+2.7pt at 56.4) and which could therefore fall back.

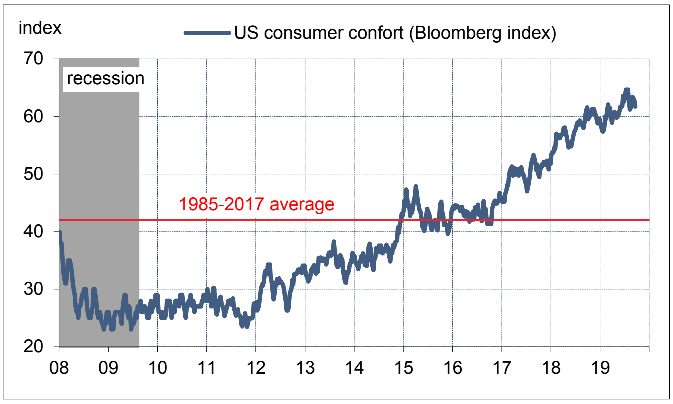
Appendix 1 - Labour market

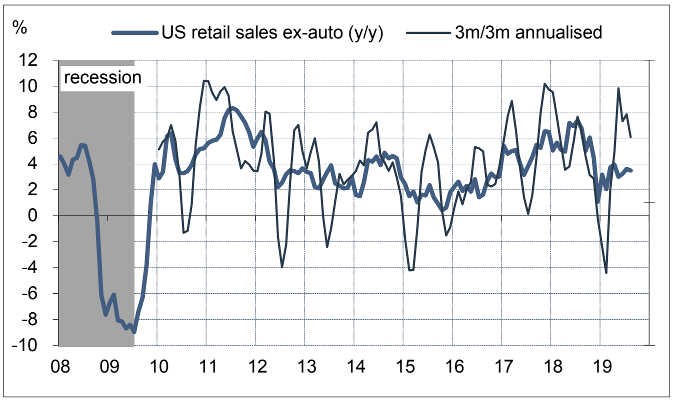


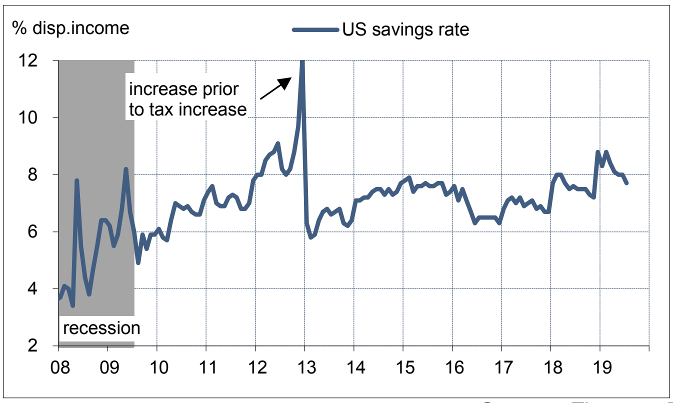


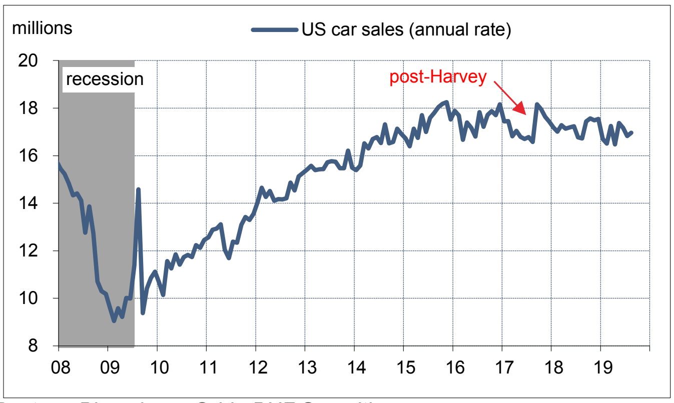


Appendix 2 - Consumer



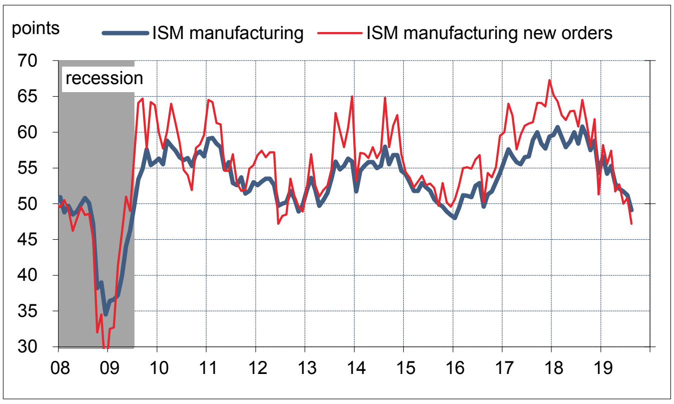


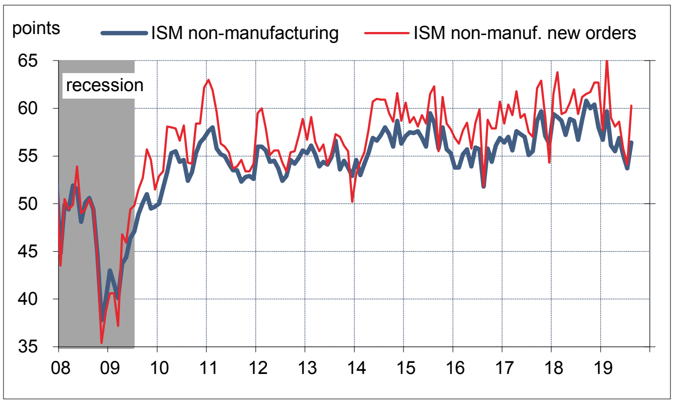


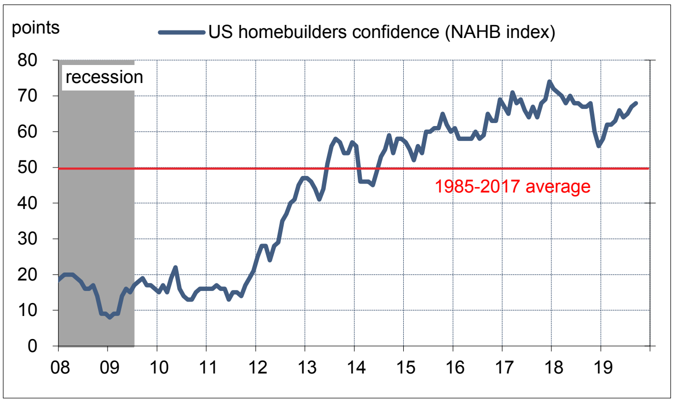


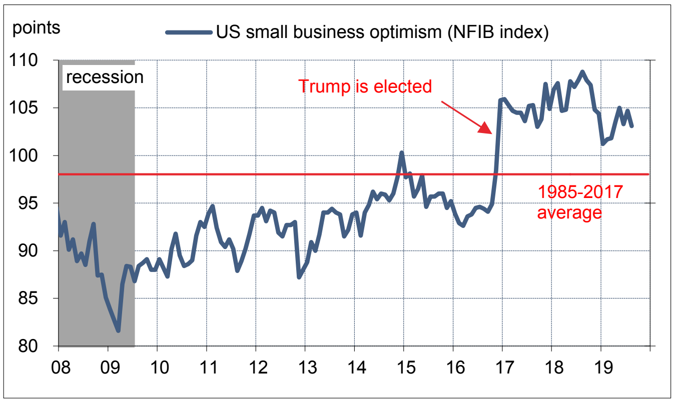
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 3 - Business climate

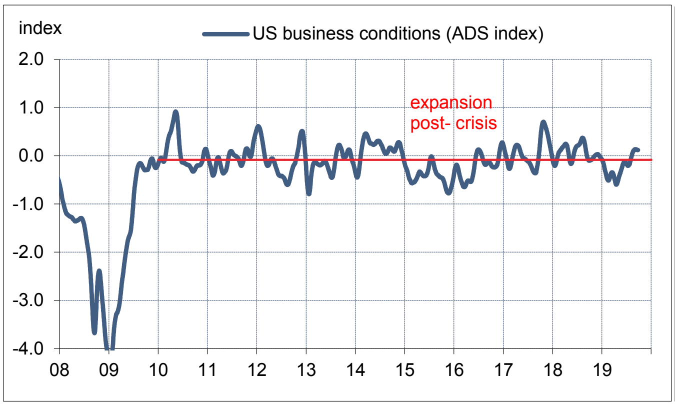


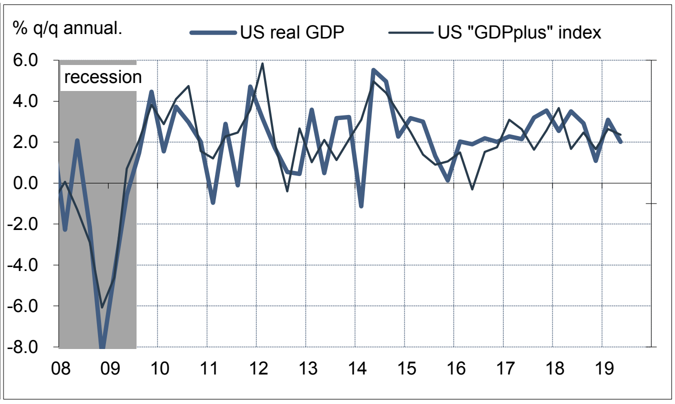


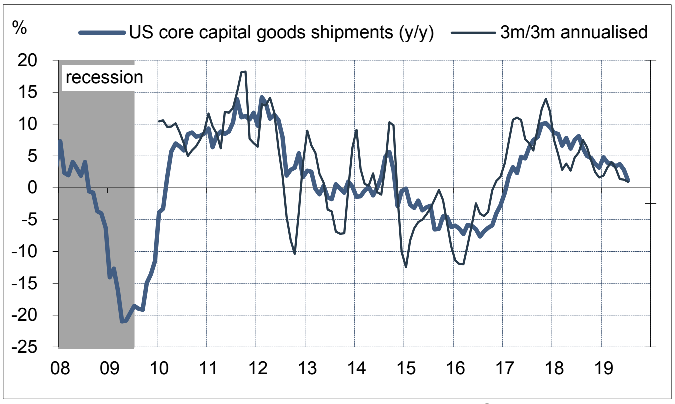


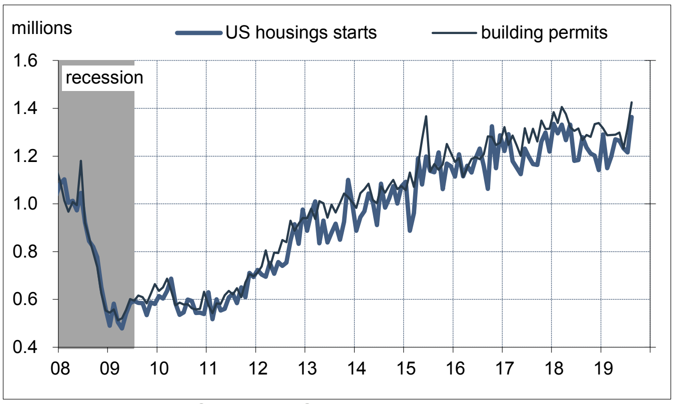


Appendix 4 - Conditions of economic activity



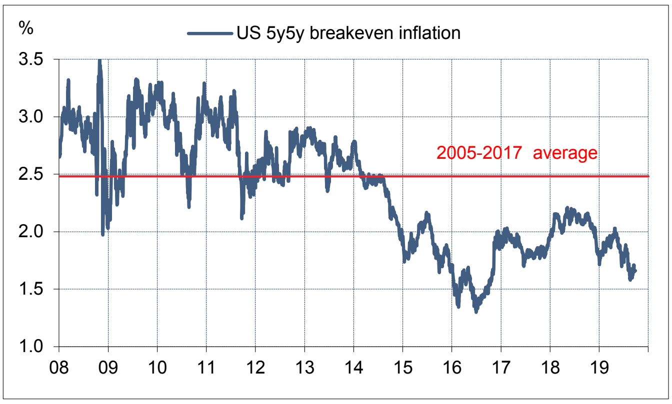


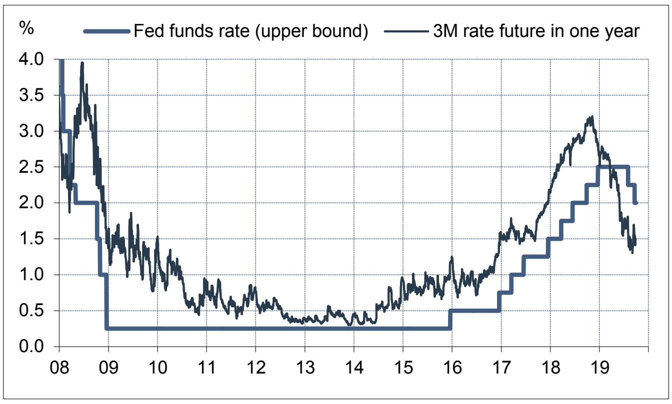


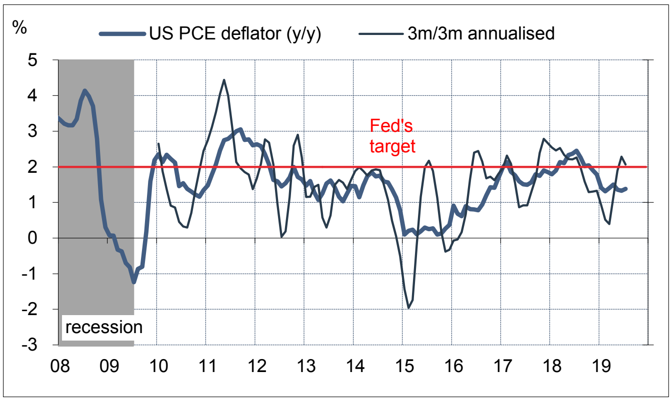


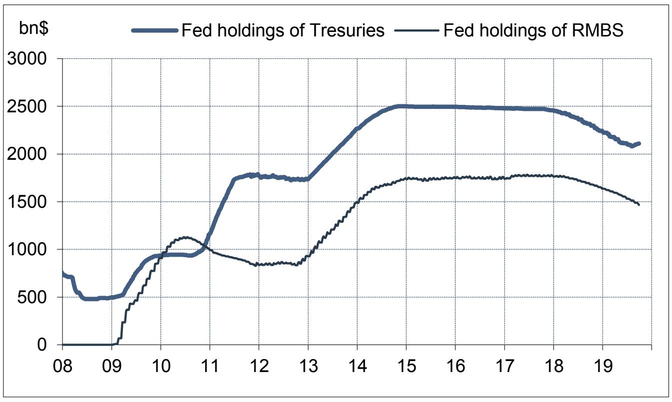
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 5 - Inflation and monetary policy

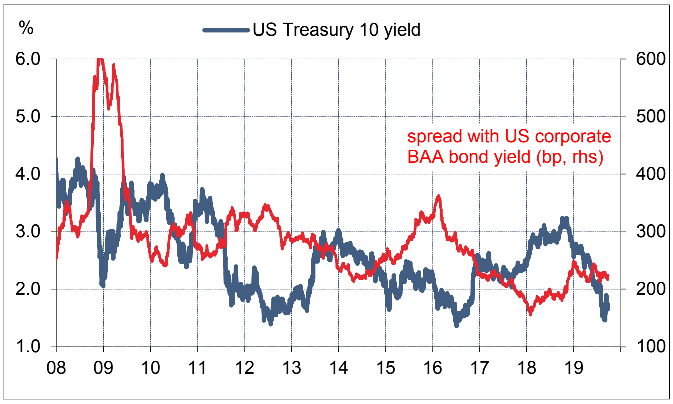


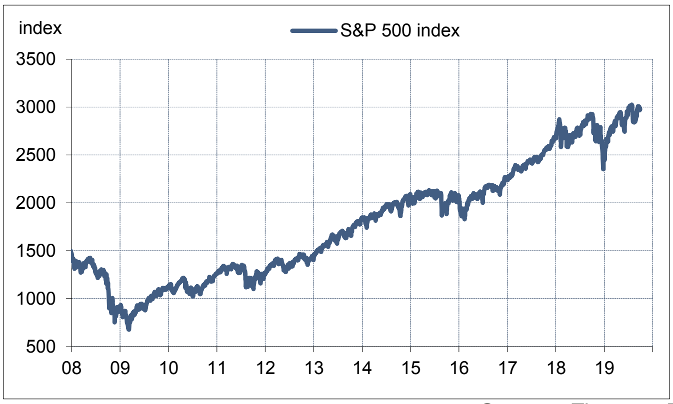






Appendix 6 - Financial markets





Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

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