

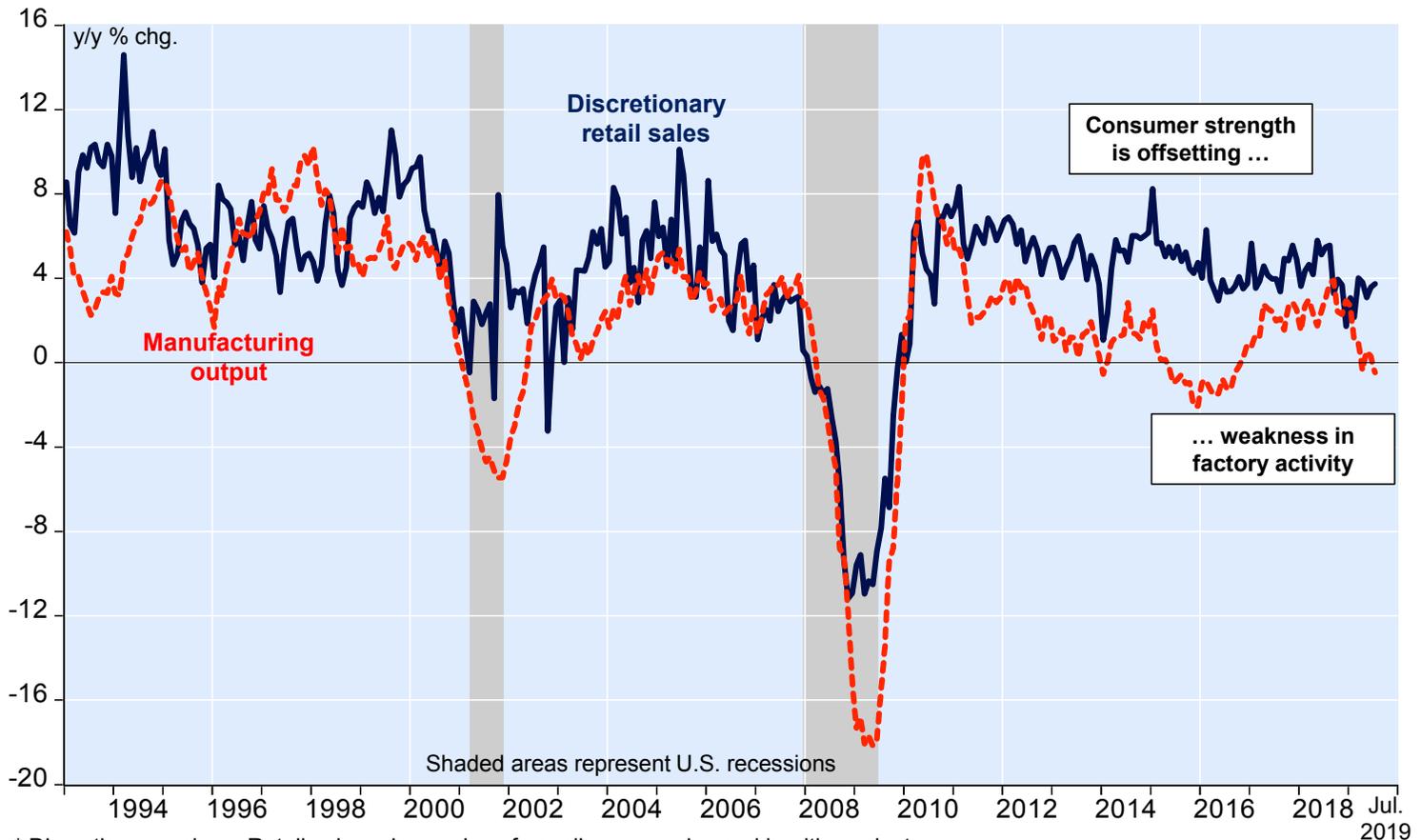
U.S. Watch

By Krishen Rangasamy

Don't write off the U.S. economy so fast. Granted, these days it's easy to be pessimistic with the ongoing trade war, stock market plunge and the herd screaming "yield curve inversion". And disappointing data such as this morning's industrial production, which showed manufacturing contracting in July on a year-on-year basis, may reinforce bearish sentiment. But at this point the real U.S. economy isn't as bad as advertised. Note that manufacturing sector woes aren't a U.S.-specific issue considering the escalating trade war has hit supply chains and hence factories around the world. What gives us encouragement about the U.S. is its consumers which, as you will recall, account for roughly two-thirds of GDP in the world's largest economy. A buoyant labour market, an upwardly revised personal savings rate, positive housing wealth effects, low debt relative to net worth, declining interest rates and a sound financial system which continues to allow for healthy credit growth, all suggest there is room for consumption to thrive. If you have any doubts, just check out this morning's retail report for July. The consensus-topping sales growth was driven by special offers from online retailers (which means the subsequent month will likely see a giveback in that category) but also by conventional brick and mortar retailers who had a strong month. As today's *Hot Chart* shows, discretionary retail sales continue to grow at a solid pace, providing more than just an offset to a struggling manufacturing sector. So, while the U.S. economy is set to move down a gear after registering above-potential growth in the first half of the year, don't expect an outright collapse just yet.

U.S.: Consumers not ready to fold

Manufacturing output (from industrial production) versus Discretionary retail sales*



* Discretionary sales = Retail sales minus sales of gasoline, groceries and health products

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