



Economy

Focus US

N° 2016 - 29

US: the economic situation in the swing states

Friday 26 August 2016

Bruno Cavalier - Chief Economist

bcavalier@oddo.fr

+33 (0)1 44 51 81 35

Fabien Bossy - Economist

fbossy@oddo.fr

+33 (0)1 44 51 85 38

<https://www.oddosecurities.com>

The polls give Hillary Clinton a lead over Donald Trump in the upcoming US presidential elections but nothing decisive 75 days before the vote. To make up his lag, the Republican candidate is honing a protectionist message aimed at the swing states of the north, more industrialised than the national average, and an anti-immigration message for the south which is closer to Mexico. Recently, the economic situation has improved at the national level. We examine in the present note how things stand in the swing states. If the economy is to play a role in this election, it will likely favour the Democrats.

The week's focus

The presidential campaign is set to accelerate with the first TV debate between Hillary Clinton and Donald Trump scheduled for 26 September. The Democratic candidate has a lead of around five points in the national polls, but the election will be determined by the results of a handful of swing states, which are far from certain for either candidate. The US president is elected by an electoral college comprising 538 representatives. Some states have a virtually immutable political colour, 17 for the Democrats (207 electoral college votes) and 23 for the Republicans (191 votes). This leaves approximately ten swing states representing 140 votes. We have categorised them in two groups. The first regroups the Rust Belt states, i.e. manufacturing states faced with deindustrialisation (such as Ohio, Pennsylvania, etc.) in the north. The second, more disparate group, includes southern states (Florida, North Carolina, Virginia), which are probably more sensitive to the immigration issue and where many US retirees are domiciled.

Donald Trump's economic programme focuses on criticism of free trade and environmental constraints. One of the targets of his rhetoric is the electorate of the northern swing states as his message implies that these states have been adversely affected by globalisation. However, a closer look at the figures shows that the economic situation of these regions is not as bad as all that. Industrial output has declined, including in recent months, but employment has picked up, admittedly by less than the national average, and the number of jobless claims remains on a downtrend (see table below). One exception is Pennsylvania where unemployment has increased by one point. Whilst industrial activity has been hit by the oil crisis initiated in 2014, it is traditionally Republican states especially, such as Texas and Alaska, which have been affected. In the other swing states where growth exceeds the national average, the economic question carries less weight than the immigration issue.

In 1992, with the US just emerging from a recession, the economic question took centre stage in the presidential campaign, as succinctly summarised in the slogan "it's the economy, stupid". Will it be the same in 2016, even though the situation is completely different as the economy has been in an expansion phase for over seven years, with admittedly a number of jolts? Should this prove to be the case, the beneficiary could, once again be a member of the Clinton family.

	Jobless claims	Unemployment rate		Employment change (monthly average)		Participation rate	Manufacturing employment	Mining employment
	change 3M y/y	%	change 6M %pt	change 6M, 000s	change 7Y, 000s	change 4Y %pt	% total	% total
Total (All states)	-3.4	4.9	-0.1	201	191	-1.0	8.6	0.5
Democratic states	-1.9	5.1	-0.2	253	191	-0.8	7.7	0.0
Republican states	-3.5	4.8	-0.1	115	195	-1.0	9.3	1.1
Swing states ("North") *	-3.6	4.7	0.3	178	135	-0.1	11.9	0.2
Swing states ("South")**	-10.8	4.5	-0.3	272	234	-2.0	6.0	0.3

* Ohio, Pennsylvania, Minnesota, Wisconsin, Iowa. ** Florida, North Carolina, Virginia, Colorado, Nevada

Sources: Thomson Reuters, Oddo Securities

Conflict of interests:

Oddo Securities, a division of Oddo et Cie, limited sharepartnership - Bank authorised by ACPR. Oddo & Cie and/or one of its subsidiaries could be in a conflict of interest situation with one or several of the groups mentioned in this publication. Please refer to the conflict of interests section at the end of this document.
Le présent document n'est pas un document contractuel ; il est strictement destiné à l'usage privé du destinataire. Les informations qu'il contient se fondent sur des sources que nous estimons fiables, mais dont nous ne pouvons garantir l'exactitude ni l'exhaustivité. Les opinions exprimées dans le document sont le résultat de notre évaluation à la date de la publication. Elles peuvent donc être révisées à une date ultérieure.

Economy

- Home sales were mixed in **July**. New home sales rose sharply by 12.4% over the month to 654,000 units, but note that this series is volatile and subject to major revisions. Existing home sales were down 3.2% to 5.39 million. In this segment, sales were restricted by the lower level of existing home inventories. This should continue to push prices up and prompt home-builders to accelerate the production of new units.
- Durable goods orders rebounded by **4.4%** in **July**, with the core component (capital goods excluding defence and aircraft) gaining 1.6%. The series is too erratic to establish any definitive signal but note that the three-month variation is now close to equilibrium for the first time since the beginning of 2016. If this trend is confirmed, a rebound in business investment could be observed in Q3. That said, after several quarters of contraction the year-on-year change in industrial orders remains fairly negative.
- After disappointing GDP growth in Q2 (1.2% q-o-q on an annualised basis), the nowcasts issued by three regional Feds show a clear rebound in Q3. The New York Fed puts growth at 3.0%, with the St. Louis Fed at 3.5% and the Atlanta Fed (*GDPnow*) at 3.4%. This rebound should partly stem from a positive contribution from investment in the oil sector but also, and above all, from a positive contribution from inventories, which had wiped 1.2 points off growth in Q2.

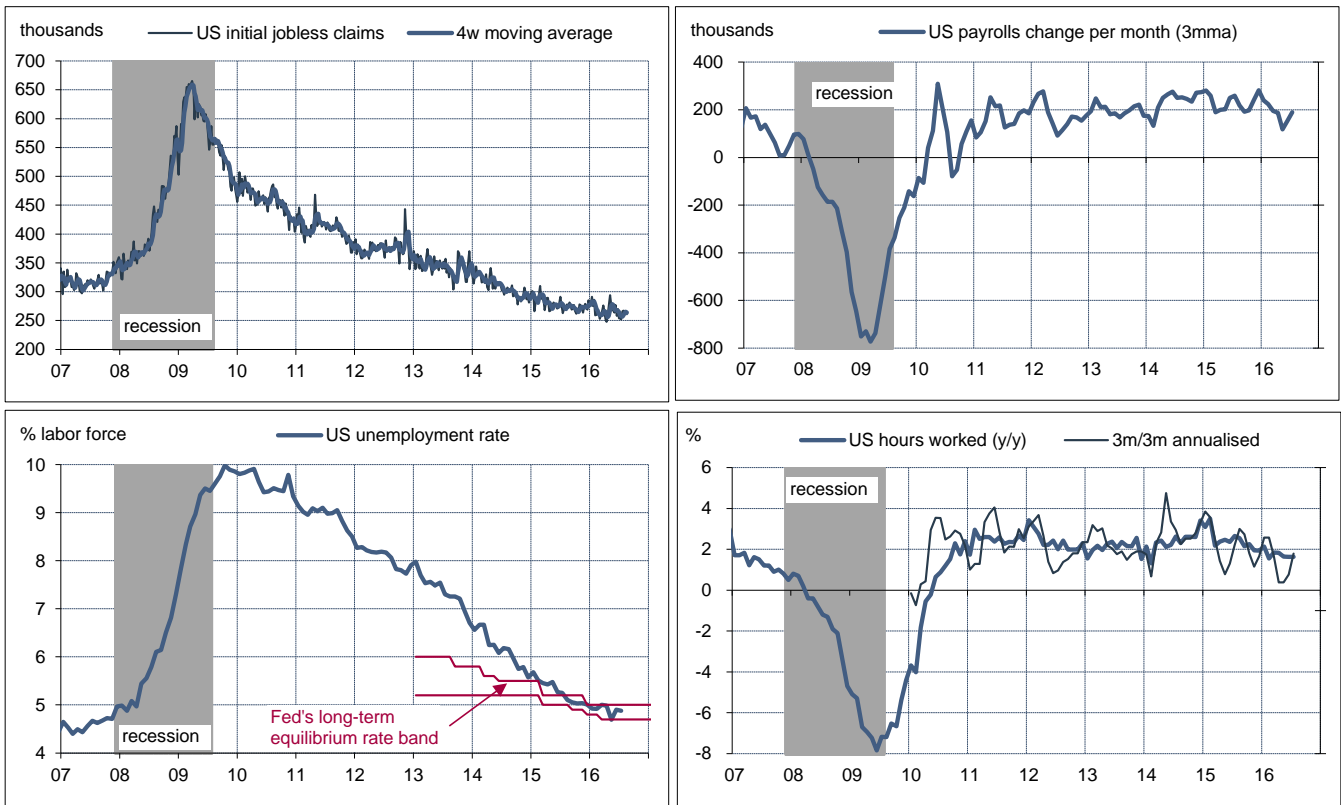
Monetary and fiscal policy

- In a speech on **21 August**, the vice-chairman of the Fed, Stanley Fischer, gave a fairly positive description of the US economy, which he deems close to the Fed's targets on employment and inflation. Granted, Mr Fischer did not omit to mention the problems associated with low productivity over recent years but refused to conclude that there is no way out of the current situation. He also gave no indication regarding his vote at the next meeting on **21 September**, but we understand that he would not find the notion of a fresh hike in the Fed funds' rate completely absurd.

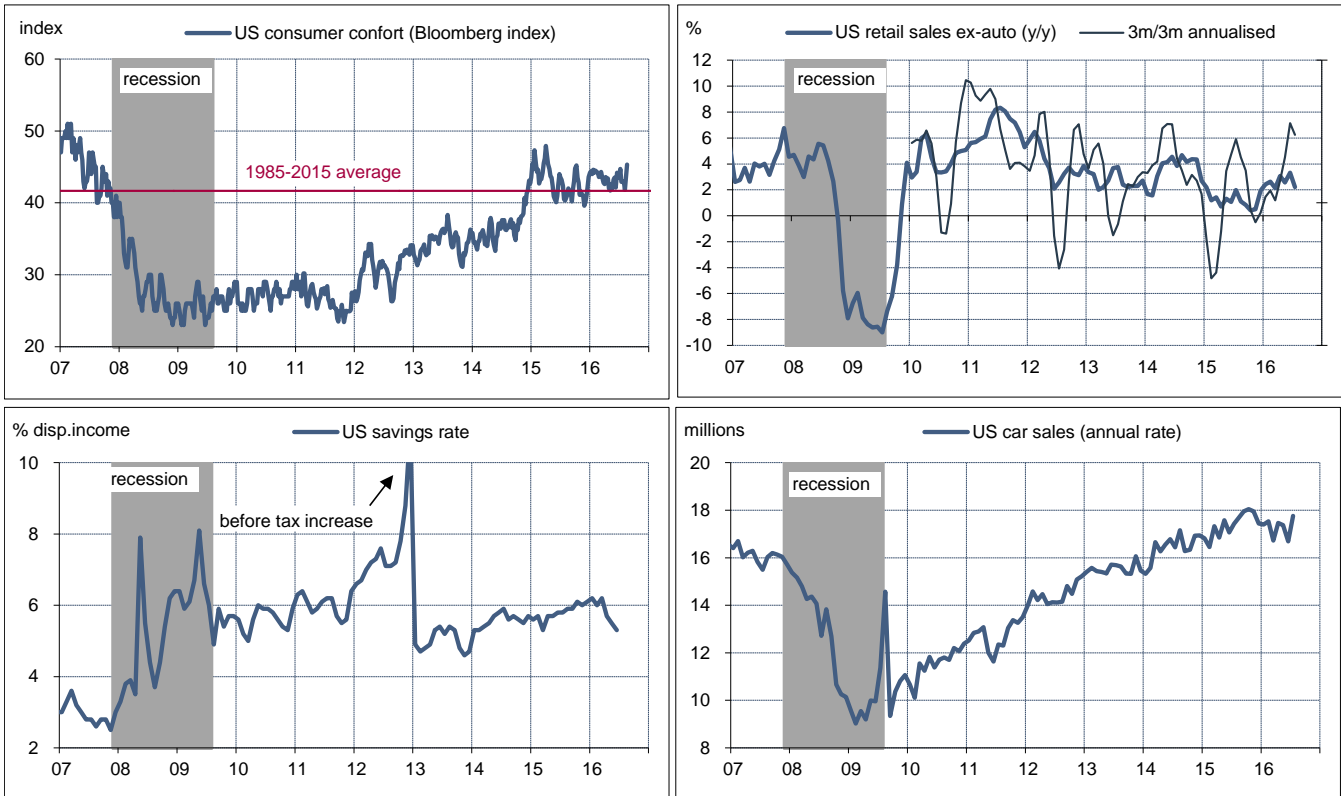
The week ahead

- After causing significant disappointment in May, the monthly labour market report improved considerably in June and July, with an increase of, respectively, 292,000 and 255,000 jobs. The unemployment rate is 4.9%, a level that the Fed deems to represent long-term equilibrium. The August report is due out on **2 September**. With jobless claims remaining at a low level, 262,000 for the reference week, the result should be satisfactory once again notwithstanding a slightly higher level of volatility in August. The consensus forecasts a return to recent trends (185,000 jobs created per month over the first half of the year). Lately, the unemployment rate has shown no clear trends, espousing movements in the participation rate (both going up or down simultaneously). Employment conditions clearly remain central to the Fed, but now that full employment has been restored inflation seems to have a greater influence on the decision whether or not to raise rates.
- Even though the correlation with the ISM is imperfect due to strong volatility, the regional manufacturing surveys that have already been published for August (New York, Philadelphia, Richmond) issue a fairly negative signal for the next ISM manufacturing survey which is due out on **1 September**. In particular, the new orders component fell back sharply. At the same time, the PMI manufacturing index was slightly down from 52.9 to 52.1 points (the ISM stood at 52.6 points last month).

Appendix 1 - Labour market

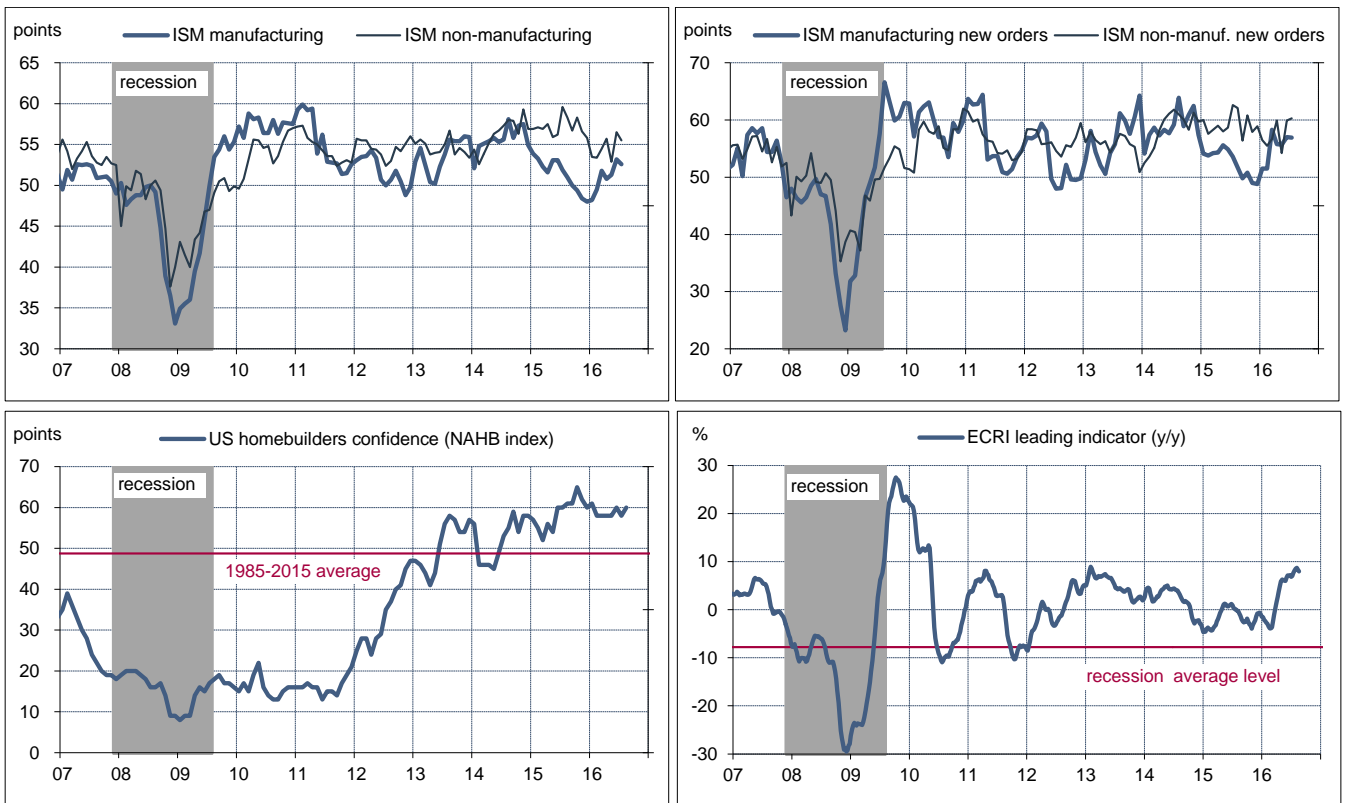


Appendix 2 - Consumer

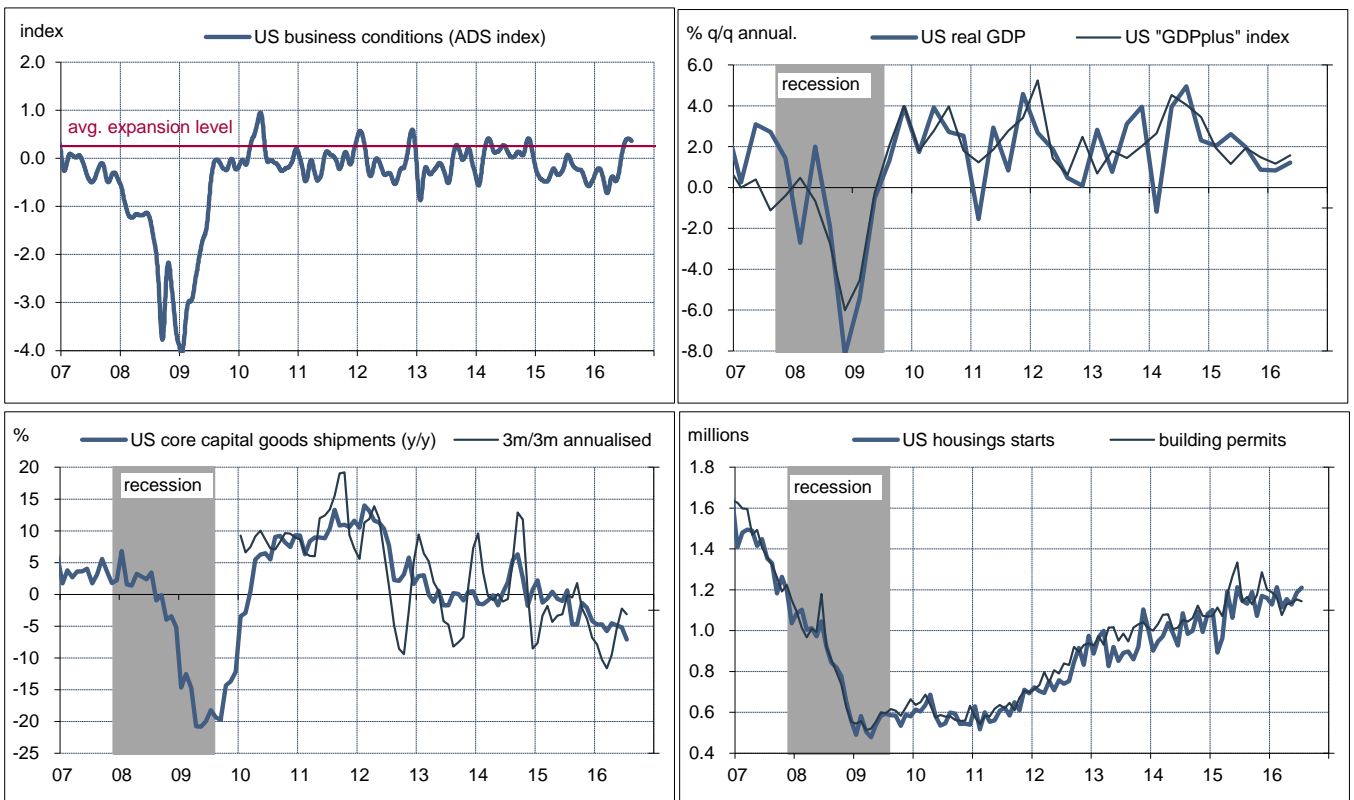


Sources : Thomson Reuters, Bloomberg, Oddo Securities

Appendix 3 - Business climate

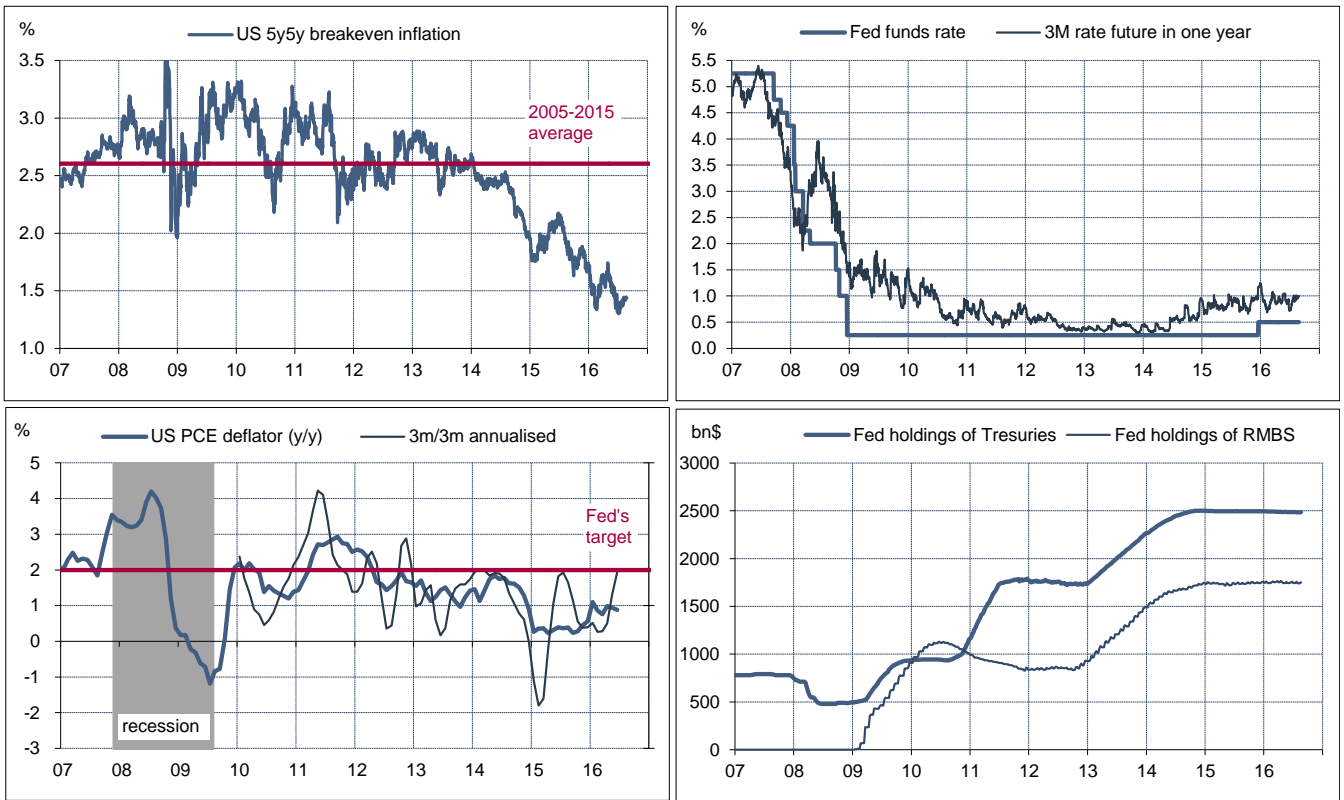


Appendix 4 - Conditions of economic activity



Sources : Thomson Reuters, Bloomberg, Odo Securities

Appendix 5 - Inflation and monetary policy



Appendix 6 - Financial markets



Sources : Thomson Reuters, Bloomberg, Oddo Securities

Disclaimer:

Disclaimer for Distribution by Oddo & Cie to Non-United States Investors:

This research publication is produced by Oddo Securities ("Oddo Securities"), a division of Oddo & Cie ("ODDO"), which is licensed by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the Autorité des Marchés Financiers ("AMF"), and/or by ODDO SEYDLER BANK AG ("Oddo Seydler"), a German subsidiary of ODDO, regulated by Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin").

The research, when distributed outside of the U.S., is intended exclusively for non-U.S. customers of ODDO and cannot be divulged to a third-party without prior written consent of ODDO. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment.

This research has been prepared in accordance with regulatory provisions designed to promote the independence of investment research. "Chinese walls" (information barriers) have been implemented to avert the unauthorized dissemination of confidential information and to prevent and manage situations of conflict of interest. This research has been prepared in accordance with French and German regulatory provisions designed to promote the independence of investment research. The recommendation presented into this document is reviewed and updated at least following each Quarterly Report published by the issuer purpose of this Research Report.

At the time of publication of this document, ODDO and/or Oddo Seydler, and/or one of its subsidiaries may have a conflict of interest with the issuer(s) mentioned. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performances offer no guarantee as to future performances. All opinions expressed in the present document reflect the current context and which is subject to change without notice. The views expressed in this research report accurately reflect the analyst's personal views about the subject securities and/or issuers and no part of his compensation was, is, or will be directly or indirectly related to the specific views contained in the research report.

This research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

Disclaimer for Distribution by Oddo New York to United States Investors:

This research publication is produced by Oddo Securities, a division of ODDO and/or by Oddo Seydler.

This research is distributed to U.S. investors exclusively by Oddo New York Corporation ("ONY"), MEMBER: FINRA/SIPC, and is intended exclusively for U.S. customers of ONY and cannot be divulged to a third-party without prior written consent of ONY. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment.

This research has been prepared in accordance with regulatory provisions designed to promote the independence of investment research. "Chinese walls" (information barriers) have been implemented to avert the unauthorized dissemination of confidential information and to prevent and manage situations of conflict of interest. This research has been prepared in accordance with French and German regulatory provisions designed to promote the independence of investment research.

At the time of publication of this document, ODDO and/or Oddo Seydler, and/or one of its subsidiaries may have a conflict of interest with the issuer(s) mentioned. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performances offer no guarantee as to future performances. All opinions expressed in the present document reflect the current context and which is subject to change without notice.

Rule 15a-6 Disclosure:

Under Rule 15a-6(a)(3), any transactions conducted by ODDO and/or Oddo Seydler, and/or one of its subsidiaries with U.S. persons in the securities described in this foreign research must be effected through ONY. As a member of FINRA, ONY has reviewed this material for distribution to U.S. persons as required by FINRA Rules 2241(h) applicable to dissemination of research produced by its affiliate ODDO.

FINRA Disclosures:

- Neither ONY, ODDO, nor Oddo Securities, nor Oddo Seydler beneficially owns 1% or more of any class of common equity securities of the subject company.
- The research analyst of Oddo Securities or Oddo Seydler, at the time of publication of this research report, is not aware, nor does he know or have reason to know of any actual, material conflict of interest of himself, ODDO, Oddo Securities, Oddo Seydler or ONY, except those mentioned in the paragraph entitled "Risk of Conflict of Interest."
- Oddo Securities or ODDO or Oddo Seydler may receive or seek compensation for investment banking services in the next 3 months from the subject company of this research report, but ONY would not participate in those arrangements.
- Neither ONY, ODDO, Oddo Securities, nor Oddo Seydler has received compensation from the subject company in the past 12 months for providing investment banking services except those mentioned in the paragraph of "Risk of Conflict of Interest".
- Neither ONY, ODDO, Oddo Securities nor Oddo Seydler has managed or co-managed a public offering of securities for the subject company in the past 12 months except those mentioned in the paragraph of "Risk of Conflict of Interest".
- ONY does not make (and never has made) markets and, accordingly, was not making a market in the subject company's securities at the time that this research report was published.

Regulation AC:

ONY is exempt from the certification requirements of Regulation AC for its distribution to a U.S. person in the United States of this research report that is prepared by an Oddo Securities research analyst because ODDO has no officers or persons performing similar functions or employees in common with ONY and ONY maintains and enforces written policies and procedures reasonably designed to prevent it, any controlling persons, officers or persons performing similar functions, and employees of ONY from influencing the activities of the third party research analyst and the content of research reports prepared by the third party research analyst. Contact Information of firm distributing research to U.S. investors: Oddo New York Corporation, MEMBER: FINRA/SIPC, is a wholly owned subsidiary of Oddo & Cie; Philippe Bouclainville, President (pbouclainville@oddonny.com) 150 East 52nd Street New York, NY 10022 212-481-4002.

Statement of conflict of interests of all companies mentioned in this document may be consulted on Oddo & Cie's .