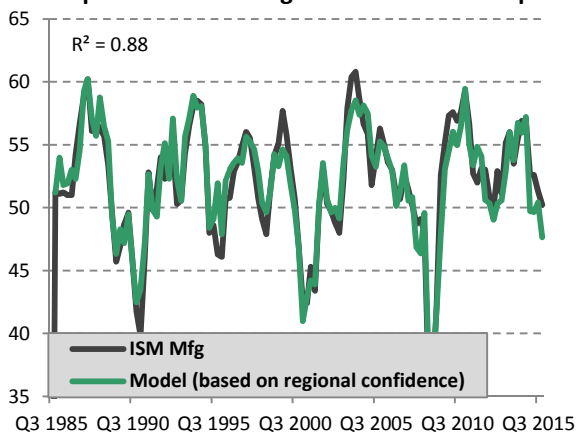


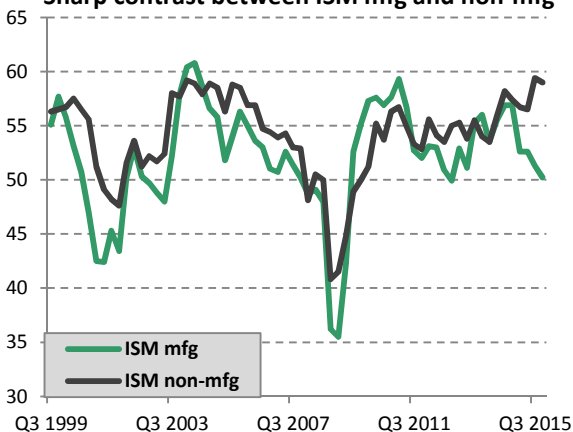
Weaker confidence in US manufacturing sector but no major reason for concern

Drop in manufacturing confidence little surprising



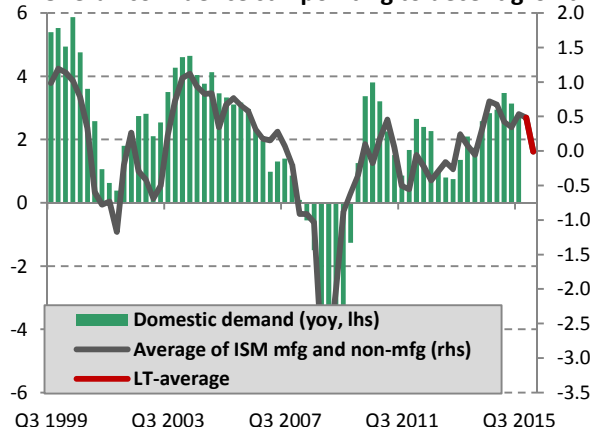
In the US, this week's published ISM indicator which measures confidence in the manufacturing sector dropped to 50.2 for September (down from 51.1 in August). This was weaker than consensus (50.6) but still better than our own estimate. Indeed, based on regional confidence indicators (Philly fed, Chicago fed and others) published earlier, a figure below 50 would not have been surprising at all. The weakness in the manufacturing sector is mainly due to the stronger USD, weakness in the energy sector and relatively weak growth overseas.

Sharp contrast between ISM mfg and non-mfg



The weakness in the manufacturing sector contrasts with the strength of the non-manufacturing sector. At the time of writing, the figure for September is not yet available. However, at 59 the August figure is close to all-time highs and we expect it to remain strong. At the same time, consumer confidence is still robust suggesting recent stock market weakness has not bothered US consumers too much. Indeed, it seems that both the ongoing recovery in the housing market and cheaper energy prices outweigh the impact of lower equity prices thus far.

Overall confidence still pointing to decent growth



Following the 0.6% growth figure seen in Q1, the spring figure came in very strong at 3.9% (in annualized terms). Most recent consumer and business confidence indicators suggest the economy is growing at around 2.5%. Looking ahead, even though we expect confidence to remain relatively upbeat, it cannot be excluded that confidence in the non-manufacturing sector drops from the current record high levels. Similarly, the negative effects of stronger USD and energy sector should also gradually fade somewhat. Assuming both confidence indicators move back to their LT-average that would still be consistent with slightly below 2% growth. At 2.1% we expect growth to come in slightly higher but below consensus at 2.7%.