US manufacturing sinks into recession amid trade wars

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Economists still expect the Federal Reserve to cut the benchmark lending rate this month amid signs of weakness in manufacturing

US manufacturing sunk into recession in June after two consecutive quarters of declines amid President Donald Trump's bitter trade wars and a slowdown in China and other trading partners.

The decline comes as the United States enters its 11th year of economic recovery and occurs despite Trump's constant pledges to restore America to manufacturing greatness—even though services now drive three quarters of the US economy.

Despite jumping in June, manufacturing fell by a 2.2 percent annual rate in the April-June period, and total industrial production lost 1.2 percent, in both cases the second consecutive quarterly decline, the Federal Reserve said Tuesday.

"Manufacturing has borne the brunt of tariff uncertainties and slowing in global economic activity," RDQ Economics said in an analysis.

The retreat comes even as American consumers are sustaining their appetite for spending, pushing retail sales higher for the fourth straight month, as shoppers in June took home more new autos and furniture and dined out more frequently.

Manufacturing jumped 0.4 percent compared to May, while total industrial production showed no change, according to the Federal Reserve report, confounding economists' expectations for a 0.2 percent gain.

However, economists said that uptick was unlikely to be sustained in coming months.

"Manufacturing is enduring a mild recession, but it probably won't deepen much further," Ian Shepherdson of Pantheon Macroeconomics said in an analysis.

Lower interest rates

The downturn in manufacturing is "not news; it's a consequence of

China's cyclical slowdown and the trade war," he said.

He predicts Washington and Beijing will find a deal to end their bitter trade dispute—following the resumption of talks by telephone this month—meaning that by the end of the year "China's economy will be turning up."

Meanwhile, retail sales rose 0.4 percent in June, double the expected gain, meaning sales are up a solid 3.4 percent compared to June of last year, according to government data.

The contrary data cast a bit of a cloud over growth figures for the second quarter and could confuse the Federal Reserve's interest rate strategy.

However, Fed Chair Jerome Powell doubled down on the case for a cut in the key borrowing rate this month, given weak manufacturing and business investment and concerns about lagging inflation.

Powell said inflation expectations "are near the bottom of their historical ranges," and despite the Fed's confidence that the US economy will continue to grow, many officials feel "the combination of these factors strengthens the case for a somewhat more accommodative stance of policy."

Shepherdson, however, said a rate cut would be premature given his expectation for a recovery in the second half of the year.

"To cut rates now because of the recent weakness of manufacturing is a mistake, in our view, because monetary policy works with long lags, and easing in H2 will be supporting growth next year," he said.

But Oxford Economics expects "manufacturing activity and overall industrial production to remain under pressure from these headwinds," and predicts the Fed to produce "three 'insurance' rate cuts over the next nine months."

Along with higher manufacturing, mining output rose 0.2 percent, while petroleum and coal jumped 2.5 percent. Mining surged 8.9 percent in the latest quarter, its 11th consecutive quarterly increase.

But with milder temperatures in June easing demand for air conditioning, utilities output fell 3.6 percent in June.