US: Getting that sinking feeling?

The plunge in the ISM manufacturing index adds to the sense of unease about the prospects for the global economy and will reinforce financial market gloom.

Content
- Trade tensions are hurting
- 2019 will be a tougher year
- But there are some positives

Trade tensions are hurting

The ISM manufacturing index, one of the oldest and most respected business surveys in the US, fell to a two year low in December. It dropped from 59.3 in November to 54.1 – the steepest decline since 2008. When combined with poor outcomes from the Chinese and Eurozone surveys, it clearly adds to concerns about the outlook for global growth in 2019.

New orders plunged 11 points – its biggest drop in nearly five years

Certainly, trade protection fears are evident given the threat the disruption poses for supply chains with an associated upward impact on cost. New orders plunged 11 points – its biggest drop in nearly five years while the production, employment, supplier delivery and inventory readings all fell. Given the headline ISM index was up at a 14 year high as recently as August this is a concerning development. Interestingly, the export component actually rose, which is hard to reconcile with the weakness seen in other country surveys.
2019 will be a tougher year
We always believed 2019 would be a tougher year as the economy battles against more
headwinds - namely the lagged effects of higher borrowing costs, the stronger dollar, the fading
support from the 2018 fiscal stimulus and weaker external demand at a time of rising trade
protectionism.

Given the headline ISM index was up at a 14 year high as
recently as August this is a concerning development

This survey, coupled with the recent financial market turmoil offers further evidence to suggest
that the pace of Federal Reserve interest rate hikes will be much more modest in 2019 versus last
year. Indeed, it is consistent with our view that the Fed will probably pause its policy tightening in
Q1.

But there are some positives
We will be looking to the slew of Fed speakers next week to see if they can provide some soothing
words for markets, but we have to remember the Fed will remain committed to its mandate of
price stability while maximising employment. Moreover, it is important to point out that there are
still positives in the US economy, such as the strong jobs market, which is now delivering higher
pay rates. Meanwhile, the 65cent/gallon plunge in gasoline prices is leaving more money in drivers’
pockets – around $90bn more on an annualised basis.

Finally, its worth remembering that the ISM index is still pointing to growth, albeit slower than
what we saw in the middle of 2018. The current US-China trade ceasefire until March also provides
breathing room, and if progress can be made resulting in some form of resolution, or at least an
extension of the peace, this would clearly be positive for the economic outlook in the first half of
the year.
Disclaimer
This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.