

## US service sector's strong summer boosted by concerts and movies

The US service sector ISM surprised to the upside in August and while not at very high levels is consistent with US growth accelerating in the third quarter. There are doubts as to how sustainable this will be, but the rise in the inflation component will keep hawks wary even if they do indeed go with the majority and vote for a pause on rate hikes in two weeks

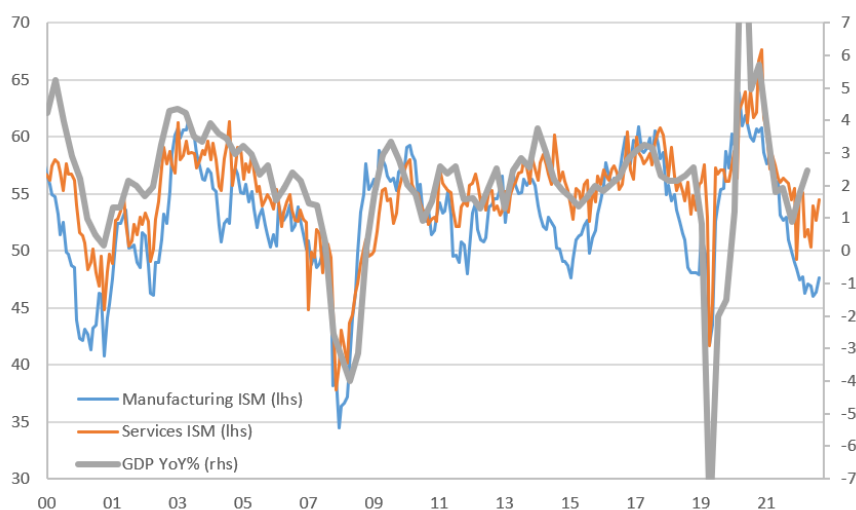


Entertainment helped boost US services over the summer

### Entertainment drives a strong summer for services

The US ISM services index was surprisingly strong in August, rising to 54.5 from 52.7. This is well ahead of the 52.5 consensus expectation and in fact above every single forecast submitted by economists, leaving the index at a six-month high. Activity improved to 57.3 from 57.1, new orders jumped to 57.5 from 55.0 while employment rose to 54.7 from 50.7, indicating broad-based strength throughout the report. It may well be that the summer entertainment boon has been a big factor with concerts and cinemas pulling in record revenues and ancillary businesses feeling the benefits too. Nonetheless, as the chart shows, the headline reading is still at levels that would historically point to lower YoY GDP growth than the 2.5% recorded in the second quarter.

## US ISM indices and US GDP growth (YoY%)



Source: Macrobond, ING

## Inflation concerns to keep the hawks wary amid data uncertainty

The prices paid component rising to 58.9 from 56.8 is a concern though and is likely to keep the hawks wary even if there does seem to be a consensus amongst Federal Reserve officials that it can afford to pause in September and assess the situation again in November. Interestingly S&P's PMI measure for services, also released this morning, told a very different story. The headline index dropped sharply to 50.5 from 52.3, indicating barely any growth with its employment measure weakening and its prices measure recording their lowest reading since February. Just shows you how tricky it is to get a clear reading of what is going on in the economy right now and reinforces the view that a pause at the September FOMC makes sense.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### 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 N.V. 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. 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 authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.