

# US slowdown fears heighten the odds of Fed rate cuts

Business surveys are not looking good. Today's manufacturing ISM looks particularly soft with the employment metrics looking especially poor. The Fed signalled the potential for a September rate cut, but today's data has given the market even greater faith the Fed will loosen monetary policy with the pricing now in excess of 75bp of cuts this year



US manufacturing ISM fell, which indicates the Fed is likely to cut rates starting in September

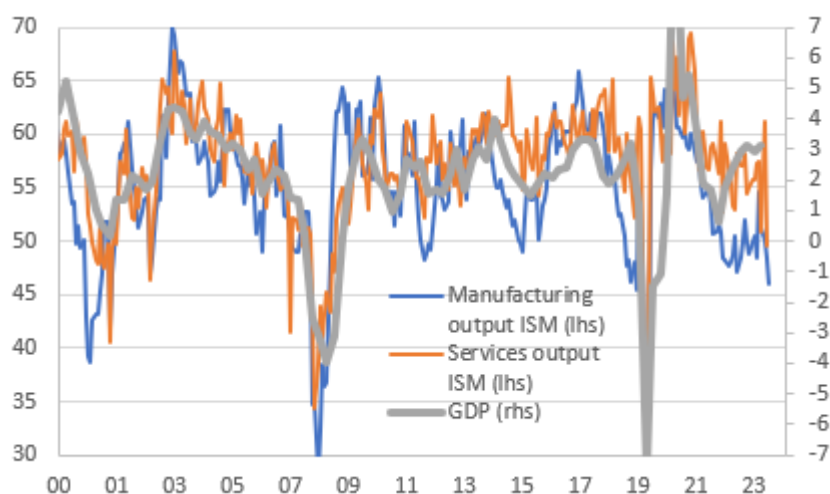
## Manufacturing worries mount

Today's US ISM manufacturing index for July was very soft. The headline balance dropped to 46.8 from 48.5 (consensus 48.8), meaning it has been below the break-even 50 level for 20 out of the past 21 months. Employment was very weak, plunging to 43.4 from 49.3, which is the worst outcome since the pandemic (June 2020) and sets us up for a potentially very disappointing non-farm payrolls number tomorrow. Meanwhile, new orders dropped to 47.4 from 49.3 with output dropping to 45.9 from 48.5. Anything below 50 is a contraction, so this is not good and has helped to help push the market to fully discount three cuts this year even though prices paid increased due to a pick-up in commodity prices.

The chart below shows how the ISM output indicators suggest a clear risk of a sharp slowdown with the non-manufacturing index dropping below 50 in June. We will get the July release early next week and the consensus is looking for a bit of a recovery, but it will still imply the threat of

substantially weaker economic activity in coming quarters.

## ISM reports suggests the risk of a rapid slowdown



Source: Macrobond, ING

## Jobless claims point to the threat of a major pick-up in the unemployment rate

Earlier we had initial jobless claims, which jumped to 249k last week, up from 235k the previous week and above the consensus 236k expectation. Continuing claims also rose more than expected to 1877k from 1844k – the consensus forecast was 1855k. Auto maker retooling shutdowns always make predicting this number challenging in the summer months and there is the risk of greater than usual volatility, but we appear to be in a clear upward trend channel for both initial and continuing claims.

So far the move in the unemployment rate from 3.4% to 4.1% has been driven by rising worker supply rather than job losses. However, should these trends in claims continue it would mean growing upside risk to the unemployment rate. Remember the Fed only last month predicted that unemployment would end the year at 4%. We are already above that and the risks, we believe, are skewed towards the unemployment rate hitting 4.5% or higher by December. As such we see greater scope for Fed policy easing than they are currently admitting.

Note too that we also had second quarter productivity and unit labour costs data. Productivity was stronger than expected (2.3% versus 1.8% consensus) and this meant unit labour costs cooled significantly to just 0.9% (consensus 1.7%). Coupled with the softer employment cost index from yesterday, this should really boost the Fed's confidence that inflation pressures emanating from the jobs market are cooling fast and that we are on a path to achieving 2% inflation.

## 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>.