

## Business surveys add to concerns about cooling US growth

Both manufacturing and service sector ISM headline readings came in weaker than any analysts were forecasting. Business activity is cooling and employment is contracting in both surveys. Price components are elevated due to tariffs, but we don't see inflation pressures being sustained and look for the Fed to respond with rate cuts



US manufacturing and services ISMs are weaker than expected

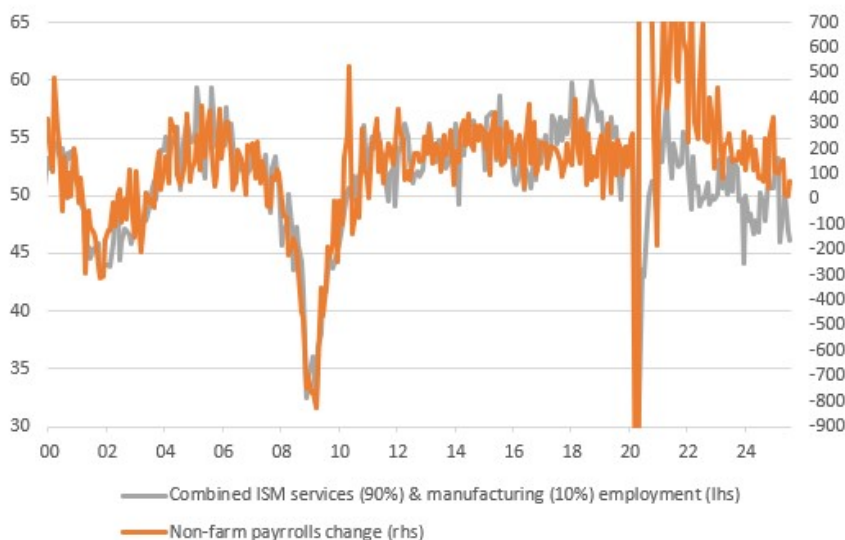
### Weak output, falling employment suggest rate-cut momentum will build

More disappointing US data today in the form of the July ISM services index, which fell to 50.1 from 50.8, rather than rise to 51.5 as predicted by the consensus. As with the manufacturing ISM survey from last Friday, this was weaker than anyone surveyed predicted.

Employment fell to 46.4 from 47.2, which doesn't bode well for August's jobs report given we already knew the manufacturing employment version dropped to the weakest level since June 2020. If we weight them 90% for services and 10% for manufacturing we see that these readings are historically consistent with non-farm payrolls dropping by more than 100,000. While the relationship with payrolls hasn't been as strong since the pandemic, at the very least it suggests we should be braced for soft jobs growth through the second half of the year at the very least. In particular, Federal government workers who accepted the severance packages from the

Department of Government Efficiency are set to drop off employment numbers in September.

### Employment ISM component and non-farm payrolls (000s)

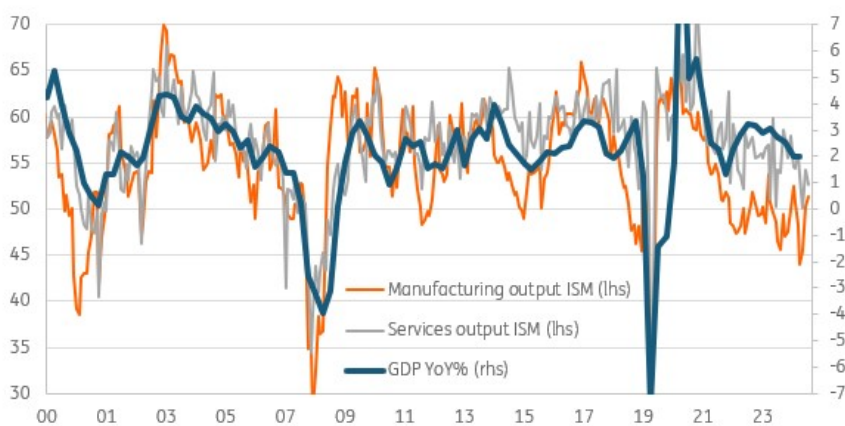


Source: Macrobond, ING

### Tariff-related inflation is unlikely to be sustained

Meanwhile, new orders fell to 50.3 from 51.3 with export orders dropping back into contraction (sub-50) territory of 47.9. Overall business activity is still growing as signalled by an above 50 print of at 52.6, but this is down from 54.2 in June. As the chart below shows, the output series of manufacturing and services are consistent with further cooling in economic GDP growth to sub 1% YoY in the second half of the year.

### ISM output series & GDP growth (YoY%)



Source: Macrobond, ING

The inflation components remain a concern though with prices paid within services rising to 69.9 from 67.5, the highest print since October 2022. In manufacturing they dipped a touch, but remain very elevated at 64.8. This is due to near-term tariff worries, but with benign energy prices, a

cooling housing market and subdued wage growth we don't think inflation pressures will have anywhere near the same intensity or duration as following the post-Covid supply chain stress led inflation of 2021-2022. As such the case for interest rate cuts in response to the weakening economy will continue to build.

## 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 [www.ing.com](http://www.ing.com).