

Snap | 6 April 2026

UNITED STATES

ISM suggests the US economy started 2026 in a good place

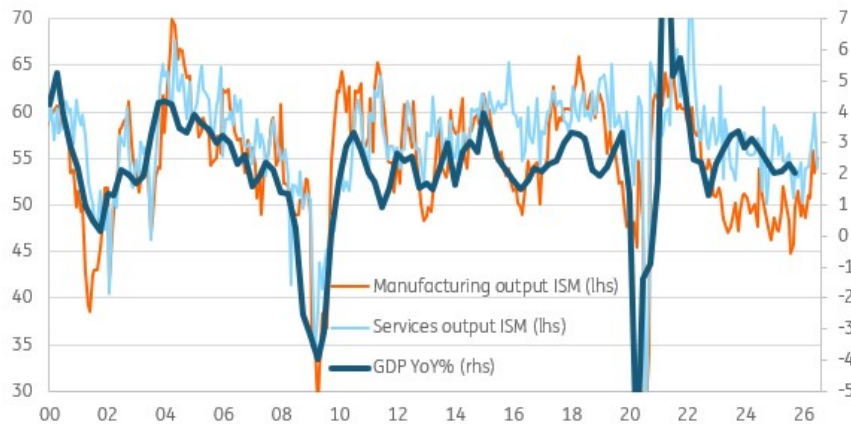
Another decent ISM activity print is consistent with the US economy growing at a 2.5% annual pace in 2026. The concern is that the jobs component dropped sharply in March and prices paid jumped, suggesting growing business caution in the wake of heightened economic and market angst tied to the conflict in the Middle East



The ISM services index indicates GDP growth of about 2.5%, but there is caution ahead on job growth and geopolitical tensions

ISM reports consistent with 2.5% GDP growth

The ISM services index came in a touch softer than expected, but remains at healthy levels, indicating the US, for now, is in a relatively good position to withstand the economic headwinds coming from the Middle East conflict. The headline index dropped from 56.1 to 54 (consensus 54.9). The chart below shows the relationship between the ISM manufacturing and services ISM business activity readings and year-on-year GDP growth. They are currently consistent with the US economy expanding 2.5% this year, which is broadly in line with our GDP growth forecast for 2026.

ISM business activity readings versus US GDP growth (YoY%)

Source: Macrobond, ING

Employment drop is a concern

In terms of the details, on the positive side, the new orders number posted a very strong print of 60.6 from 58.6. However, the business activity component dropped to 53.9 from 59.9 and the employment component dropped from 51.8 to just 45.2. That is well below the break-even 50 level and is also substantially below the six-month average of 49.3.

While Friday's jobs number (+178k) was better than expected, with the service sector contributing 135k jobs in March, this was boosted by the return of striking workers in the healthcare sector and a rebound in employment after a very weak weather-induced drop in broader payrolls in February. Non-farm payrolls' employment growth in general has been disappointing, averaging 20,000 per month since the start of 2025. The worry is that if the US economy wasn't generating jobs in the good times, a situation where we have significant geopolitical, financial market and economic uncertainty means that we could risk outright job losses in coming months. Today's hefty drop in ISM employment has done nothing to dispel those fears.

Friday's inflation and inflation expectations are key for the Fed

The problem for the Fed is that inflation remains a worry with prices paid jumping to 70.7 from 63.0 and the pulling in different directions of the Fed's employment and inflation goals suggests the Fed will continue to watch and wait.

Friday's March CPI data is likely to show annual headline inflation jumping to 3.4% from 2.4% on gasoline price hikes, but the University of Michigan's (UoM) consumer sentiment report, released 90 minutes later, will be just as important. Fed Chair Powell acknowledged in a Q&A session at Harvard last Monday that the central bank's available tools have no meaningful effect in combating supply shocks – they can't print oil for example. All the Fed can do is try to

ensure that inflation expectations remain contained and, if necessary, they can restrain demand by tightening monetary policy. Right now, the UoM 5-10Y ahead inflation expectations remain well-behaved at 3.2%, but if they jump to say, above 3.5%, the rhetoric from the Fed may well become more hawkish.

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