

Rebound in US service sector may overstate the story

The jump in May services activity follows a steep plunge into contraction territory in April. So, we prefer to look at a two-month average, which paints a picture of solid but slowing service sector growth. With employment in contraction territory for a fourth consecutive month, businesses appear wary about the future

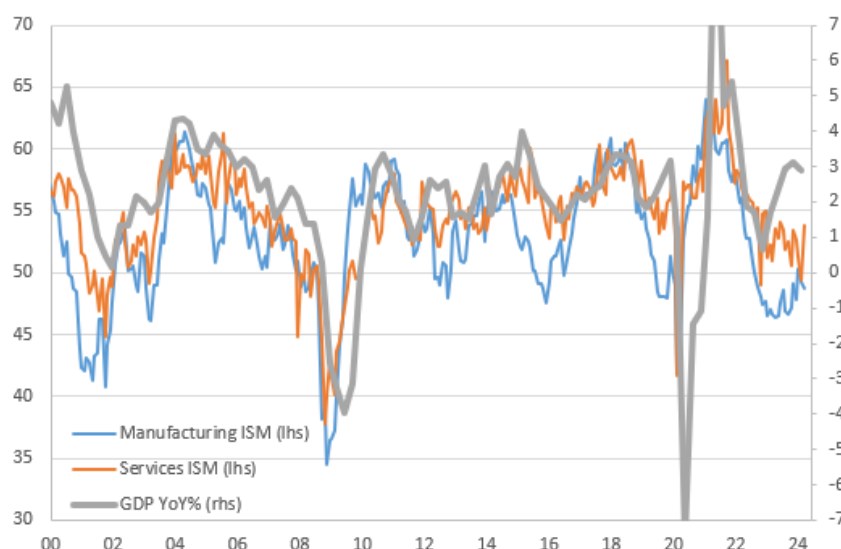


Wall Street in New York

The May US ISM services index rose quite a bit more than expected to a nine month high of 53.8 from 49.4. It was led by strong business activity (61.2 versus 50.9 in April) and rising new orders (54.1 versus 52.2) which, in turn, appears to be driven by export order strength (61.8 versus 47.9 in April). The volatility in the activity component is surprising and it may be best to take an average of May and April, which would give 56.1 versus 57.4 in March and 57.2 in February.

So that would be consistent with firm, but modestly slowing services activity. As the chart below shows, the ISM business surveys, which have historically been among the best lead indicators for the path of the economy, continue to paint a weaker growth story than the official GDP growth numbers indicate.

ISM headline indices and GDP growth (YoY%)



Source: Macrobond, ING

The employment sub-component did improve modestly, but remains in contraction territory at 47.1 (the fourth month in a row it has been below the 50 break-even level). It seems firms remain reluctant to add additional workers and again points to a cooling of employment in Friday's jobs report - as did the softer than expected ADP employment number. It also, perhaps, suggests again that the surge in business activity seen in today's May report is not seen as sustainable, hence why we should indeed take an average of April and May.

Rounding out the main components, prices paid slowed to 58.1 from 59.2 and we would expect that to ease further over the next couple of months as lower oil prices feed through into lower fuel costs.

Author

James Knightley

Chief International Economist, US

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.