

Snap | 7 January 2026

UNITED STATES

Soaring US services clouds the Fed rate cut story

The ISM services index hit a 14-month high with surging output, orders and employment, but this contradicts the relative softness seen in other business surveys. Meanwhile, job openings numbers cooled more than anticipated, reinforcing the low hire, low fire narrative for the US jobs market that will also be seen in Friday's payrolls data



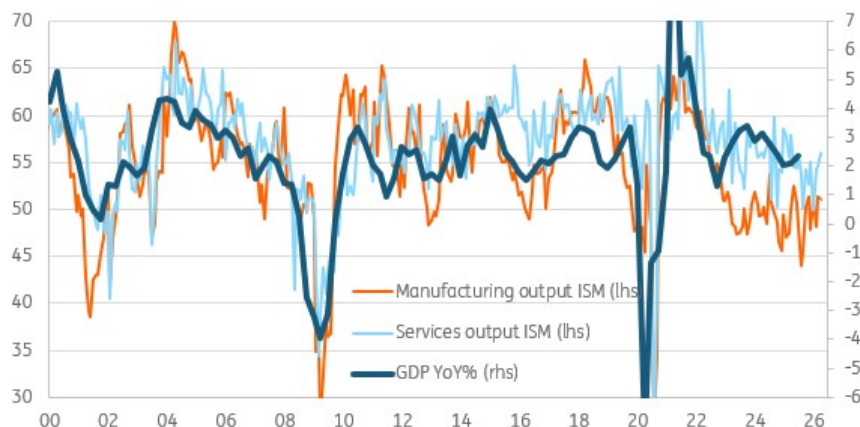
Services ISM beats all expectations for December

December's US service sector ISM index is remarkably strong, rising to 54.4 from 52.6 and above the 52.2 consensus prediction - in fact it was above all predictions in the market and is the strongest reading since October 2024. This is a purchasing managers' index where participants are asked what is happening within their business for a number of metrics - output, orders etc with a number above 50 being expansion and below 50 contraction.

Business activity rose to 56.0 from 54.5 while the employment component rose to 52.0 from 48.8, the first expansion reading since May. New orders jumped to 57.9 from 52.9 with the only area of notional weakness being in the backlog of orders that dropped to 42.6 from 49.1. With the prices paid component remaining very elevated at 64.3, this points to ongoing inflation pressures emanating from the sector.

So all in a very strong report, which in itself would suggest the Federal Reserve can safely sit on its hands for a while. The slight problem is that it contrasts starkly with weaker regional Fed surveys of the service sector seen in recent weeks, while yesterday's S&P global purchasing managers' index actually cooled. The chart shows the relationship between the output ISM measures for services and manufacturing versus GDP growth.

ISM output measures versus GDP growth (YoY%)



Source: Macrobond, ING

But the jobs story remains consistent with low hire, low fire

Separately, we had the JOLTS report (Job Openings and Labor Turnover statistics). It showed a surprisingly large dip in job vacancies to 7.15mn from a downwardly revised 7.45mn (consensus 7.65mn), but the lay-off rate dropped to 1.1% from 1.2% while the quit rate picked up marginally to 2% from 1.9% so it is all fully consistent with the low hire/low fire economy that was also illustrated earlier today with the ADP private payrolls report posting a 41,000 increase in employment in December. For reference, the consensus for Friday's non-farm payrolls report has ticked a little higher to 70k over the past week. This would leave payrolls growth trending around the 40k mark for the past six months – in line with the ADP report. So again it is a cooling, rather than collapsing jobs market. 10Y yields have ticked a couple of basis points higher on the back of these reports, but it hasn't really done anything to turn around the slight risk-off attitude in markets today. Markets are still happy pricing 60bp of Fed rate cuts this year.

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.