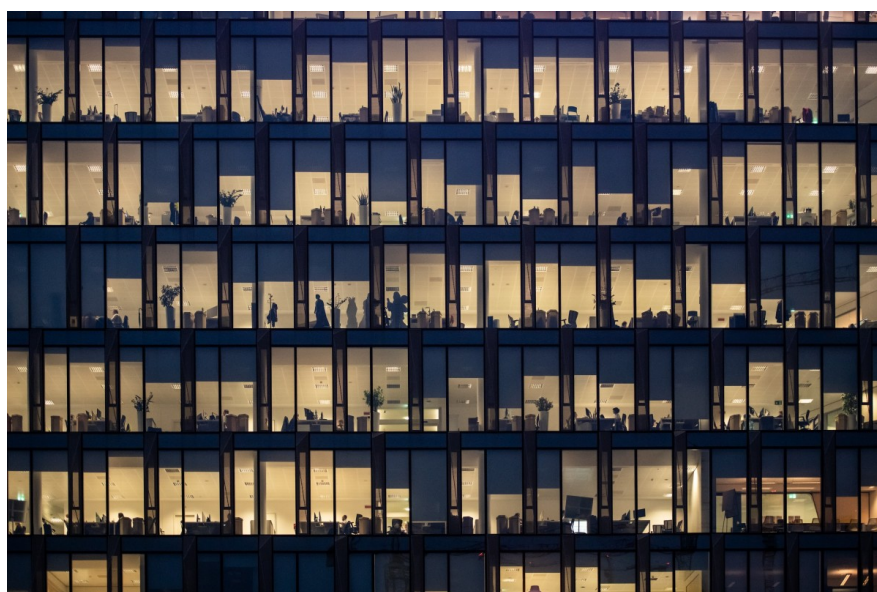


US: A record quarter

The ISM business surveys have strengthened further in September, reinforcing the view that 3Q GDP will post a record 30%+ annualised growth rate



Source: Shutterstock

The September service sector ISM index has risen more than expected to 57.8 from 56.9 with all of the key components posting improvements. Both activity and orders rose are at incredibly strong levels – above 60 versus the break-even level of 50. Employment also rose above 50 to its highest level since February.

One note of caution is that it is important to remember that this is a diffusion index so it is more about the breadth of the recovery rather than the actual pace. It is difficult to translate directly what it means for GDP growth. As the chart below shows the ISM's weakened far more during the Global Financial Crisis than they did during the current pandemic yet GDP contracted far more this year than it did in 2009-10.

Nonetheless, the fact that both the manufacturing and non-manufacturing surveys are back up at the levels before the Covid-19 containment measures were introduced suggests a broad-based recovery.

ISMs versus GDP



ISM surveys ask major US companies what they are seeing in terms of output, order, employment, inventories, supplier delivery times and comes up with an aggregate index of performance. #>50 = expansion #<50 = contraction

Source: Macrobond, ING

We also know that retail has bounced back strongly, fuelled by income gains due to additional Federal unemployment benefit payments. Following revisions to construction data it looks as though residential investment will make a substantial contribution to 3Q GDP growth as well, as record low mortgage rates and the prospect of prolonged home working fuel demand for new homes. Consequently, the US is on course to post 35% annualised growth in 3Q.

4Q is a little more uncertain. We are tentatively pencilling in 4-5% annualised growth given there is evidence of a loss of momentum in jobs growth following last Friday's employment report, while reduced unemployment benefits, election uncertainty and the potential for the pick-up in Covid cases resulting in some containment measures being reintroduced (as they are in Europe). The lack of clarity over another fiscal package also makes forecasting a challenge right now.

Nonetheless, considering where the US economy was in April it has been a remarkable turnaround.

Author

James Knightley

Chief International Economist

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>.