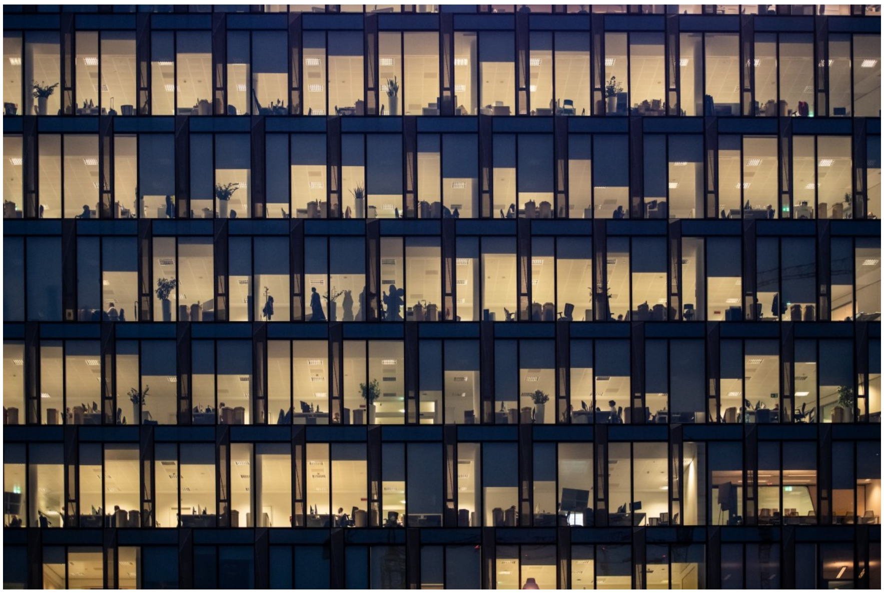
US: A record quarter

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 interms 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, US
james.knightley@ing.com

Disclaimer