

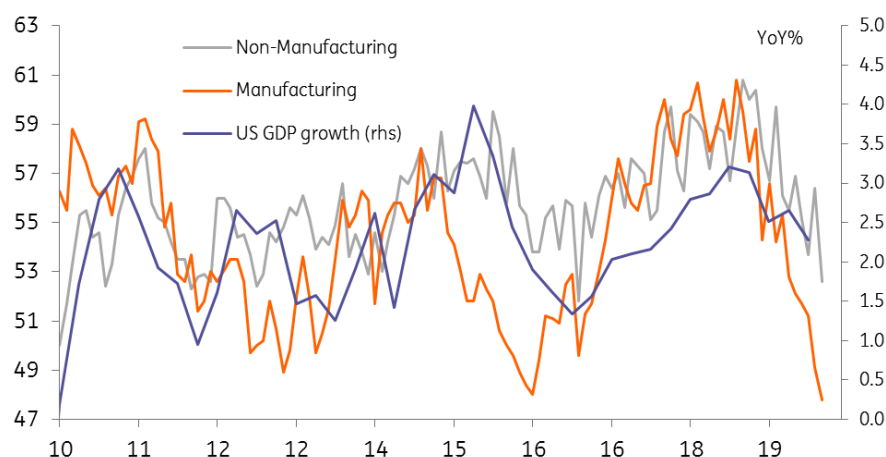
US: From bad to worse

Both key ISM surveys are pointing to a major slowdown in US growth rates. We are forecasting US GDP growth of 1.3% for 2020 versus a consensus estimate of 1.8% with the clear implication that the Federal Reserve has more work to do to support the economy



The US slowdown signals are multiplying. We were well aware of the problems in manufacturing given the trade war, slower global growth and the competitive disadvantage of a strong dollar, but it is clear that there are problems brewing in other sectors. The ISM non-manufacturing index has come in at 52.6, the weakest reading for over three years, and as the chart below shows the two ISM series are now showing that GDP growth is in a clear weakening channel.

ISM indices highlight US slowdown threat



Source: Bloomberg, ING

There was weakness throughout today's non-manufacturing report with new orders plunging to 53.7 from 60.3 versus a breakeven level of 50. Business activity fell 6.3 points to 55.2 while employment dropped to 50.4 from 53.1. This is the worst employment reading since early 2014 and given the ISM manufacturing employment number was already pointing to a sharp fall we are not optimistic for tomorrow's all-important jobs number. The consensus is still for employment growth of 147,000, but the labour surveys (including yesterday's ADP report) suggest 100-120k may be more realistic.

Payrolls growth has been slowing over the past year. Initially, there was a sense that this was because firms were struggling to fill vacancies due to a lack of workers with the right skill sets. However, the downturn in business activity suggests that it is increasingly becoming a labour demand story. As such the recent pick-up in wage growth may not continue for much longer, which risks undermining consumer spending.

Given these fears, we cut our US GDP growth forecast for 2020 to 1.3% a couple of months ago. The consensus is still 1.8%, but we imagine that this will be moving lower. The latest developments should add a sense of urgency to talks seeking a resolution to the US-China trade dispute and will keep the pressure on the Fed to ease monetary policy further. We continue to look for a December rate cut and a further move in 1Q20, but the risks are increasingly skewed towards more aggressive action.

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>.