

Snap | 3 April 2020

US: ISM indices understate extent of weakness

Like the manufacturing equivalent already released, the non-manufacturing ISM headline reading is overstating the true position of the US economy

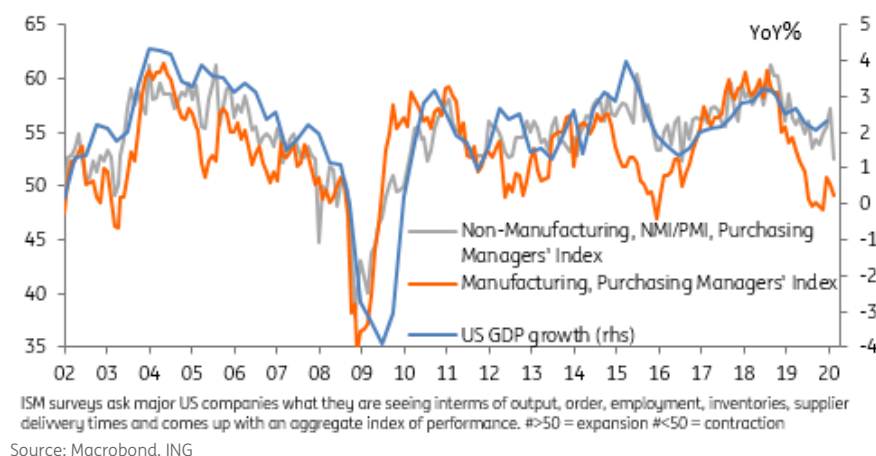


Source: Shutterstock

ISM non-manufacturing index has remained in positive growth territory in March at 52.5 versus a break-even of 50 and a consensus forecast of 43.0, but this bears little reflection of reality since it was all down to supplier delivery times. Normally, when delivery times are longer this reflects demand outstripping supply – a good situation which explains a strong ISM.

However today delivery times are extended because of the supply shock relating to Covid-19 with firms struggling to get inputs from China and increasingly from domestic suppliers because of company shutdowns, which is clearly a bad situation. As such, the ISM headline is painting an overly rosy picture right now.

ISM headline indices overstate US economic performance



The details are worse with business activity and employment plunging into contraction territory. New order are still in positive territory, but there is a 10.2 point plunge and export orders were far weaker. We fully expect the non-manufacturing ISM (remember it doesn't include retail) to post a negative reading next month.

We **look** for US GDP to contract at an annualised 40% rate in 2Q. Hopefully, the situation will ease and we will see a gradual re-opening of the economy as restrictions start to be lifted, but it will not be a V-shaped rebound. We look for the economy to post annualised growth of 22% in 3Q and 10% in 4Q with 2020 GDP contracting 7% in total.

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>.