

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

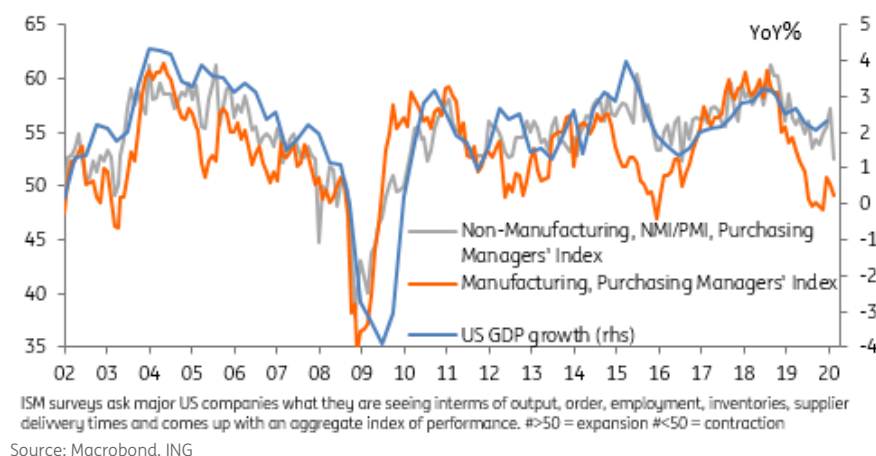


Source: Shutterstock

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.

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