

## US: Manufacturing dip is just the start

The headline ISM index fell less than feared, but the underlying components painted a darker picture. With business and consumer sentiment falling sharply, lay-offs spiking and movement restrictions spreading across the country the April report will be much weaker

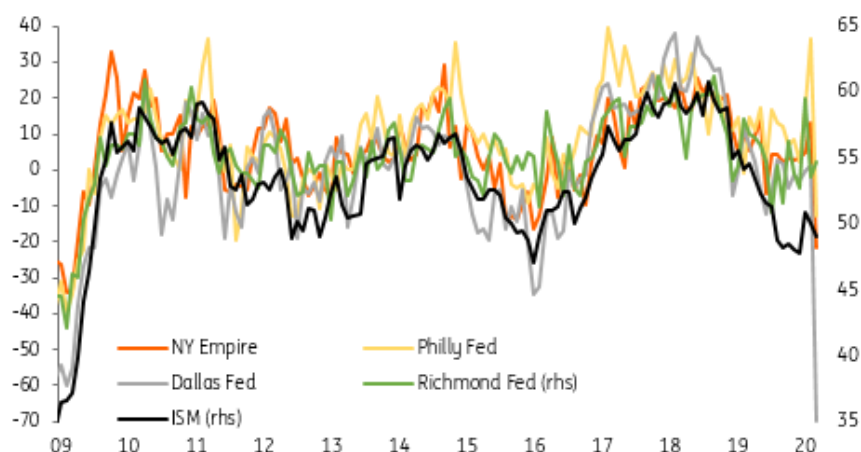


Source: iStockphoto

The good news is that the ISM headline index for the manufacturing sector hasn't collapsed in the wake of the Covid-19 crisis. It dipped marginally to 49.1 from 50.1 versus the 44.5 consensus with production holding up relatively well at 47.7 - it was actually lower in December at the height of the US-China trade tension fallout.

Of course, as the chart below shows, different regions are facing different situations with the Dallas Fed region obviously hit by the double whammy of the collapse in the oil price in addition to the economic dislocation relating to containment measures surrounding Covid-19.

## Headline ISM versus regional manufacturing surveys

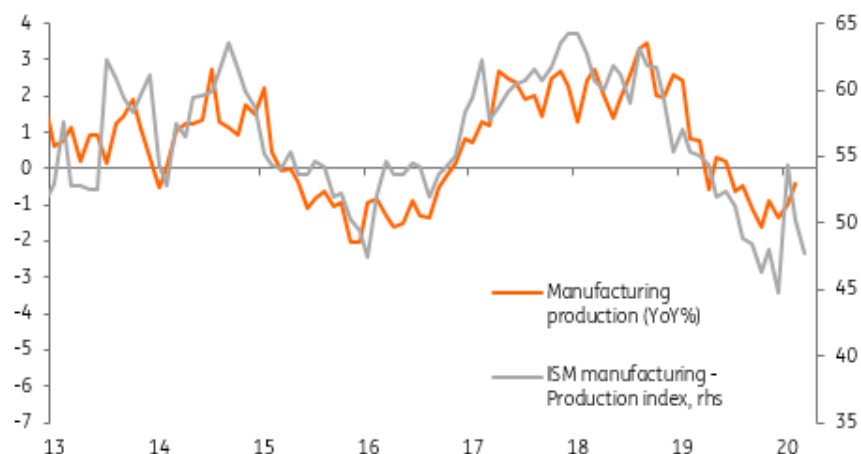


Source: Bloomberg, ING

New orders were understandably weaker, as was employment, both of which fell to their lowest levels since the global financial crisis in 2009.

Coupled with the tightening restrictions on working practices, which are now extended to the end of the month with stricter measures spreading across more and more states, the production component will fall much more sharply in April. In combination with the obvious plunge in consumer spending, this reinforces our fears about a potential 10% decline in economic activity - equivalent to an annualised 40% decline in GDP for the second quarter.

## ISM production index versus manufacturing production



Source: Macrobond, ING

### Why you should ignore the headline reading....

The headline index is being artificially boosted by a surge in the supplier delivery times component of the report. Normally, when delivery times are longer this reflects demand outstripping supply – a good situation.

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 and this helps to explain why non-manufacturing surveys are performing far worse than the manufacturing equivalents around the world.

## Author

**James Knightley**

Chief International Economist

[james.knightley@ing.com](mailto: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>.