

US: quick out of the blocks

Data suggests the improvement in US-China trade relations has led to reduce uncertainty and provided a platform for stronger US growth in 2020. The worry is the coronavirus might mean this strong start loses momentum

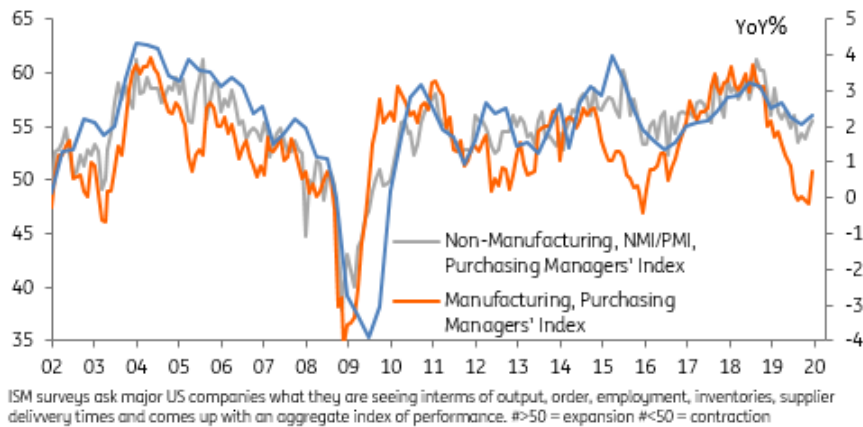


Business surveys turning higher

We have had quite a few interesting data releases from the US today and they broadly paint a positive picture. The ISM non-manufacturing index has risen to 55.5 in January from 54.9 in December with new orders and business activity showing a clear acceleration. New export orders are close to flat while the pace of employment gains have moderated a little, but overall it suggests decent growth at the start of the year.

This backs up the strong reading in Monday's ISM manufacturing survey and offers an indication that the improvement in US-China trade relations has led to reduce uncertainty and provided a platform for stronger global growth for 2020. Time will tell whether the coronavirus outbreak will derail the situation. Clearly that is a major threat with the human and economic cost in China plain to see. So far though there are only 11 confirmed cases in the US, but it is another uncertainty that could roil markets and has the potential to depress activity.

ISMs show clear improvements post the trade agreement



Source: Macrobond

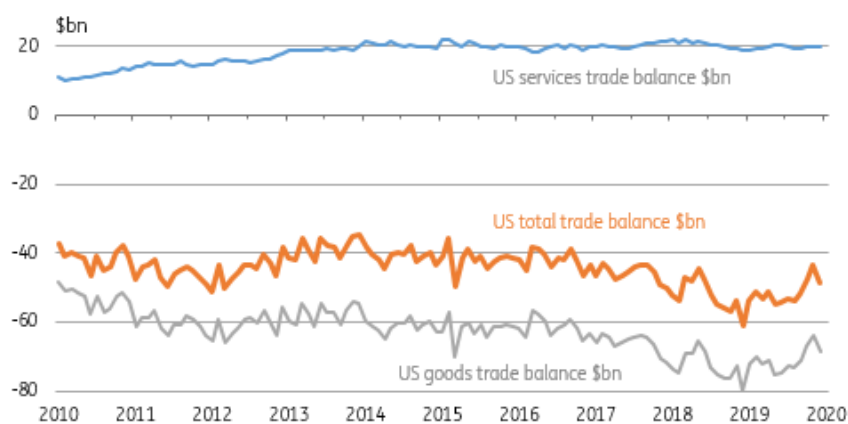
Trump and trade...

Separately, the US trade balance widened out marginally more than expected in December to US\$48.9bn from US\$43.7bn in November. Imports rebounded 2.7% month on month having fallen for the previous three months while exports rose 0.8%.

It is a series that has obviously been swung around by the trade tension story through 2019, but the net result is that the full year trade deficit has shrunk for the first time in six years, which President Trump will use to vindicate his decision to confront China on its trade practices. The deficit with China has clearly narrowed while there has also been an ongoing decline in energy imports given greater domestic output with the US running positive net exports of petroleum products through 4Q19.

Trade could remain volatile through 1H20 as virus-related impacts on Asian production and logistics look virtually certain. This could cause some strain in US supply chains. At the same time the US administration is already pulling back on hopes of a phase one trade deal related "export boom" given the likely hit to China growth. As such the overall the effect on trade may largely net off in the near-term.

US trade balances (\$bn)



Source: Macrobond, ING

Jobs and mortgage boost

We also had the ADP payrolls series, which came in well ahead of expectations at 291,000 job gains in the month versus 157,000 consensus. Mild weather is likely to have helped seeing as goods sector jobs rose 54k - construction didn't need to come to its usual seasonal halt due to less wintery conditions. We would caution that the ADP hasn't got a great history in predicting the official payrolls figure (due Friday). For example, ADP significantly undershot the official payrolls number throughout much of late 2019. We are still going for 150,000 BLS payrolls on Friday given the employment components of the non-manufacturing index slipped back and the manufacturing survey remains firmly in contraction territory.

Finally, we had another strong set of figures concerning the mortgage market. Mortgage applications surged again on the back of new lows for mortgage borrowing costs (led by re-financings). Mortgages specifically for home purchases declined, but the strength seen in recent months has been remarkable and is consistent with the view that residential investment spending and construction in general will remain a key source of growth for the US in 2020.

Overall the US economic situation looks good, but things could quickly unravel due to the coronavirus, which is something we can't predict. Our concern is that in an environment of already subdued global growth, fears over what it could lead to may heighten the potential for medium-term US economic weakness despite the good start to 2020.

Housing demand boosted by cheap borrowing costs



Source: Bloomberg, ING

Author

James Knightley

Chief International Economist, US

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>.