

US: Service sector shifting gear

Another strong reading from a major US business survey reinforces our confidence in the recovery story. With jobs and inflation pressures rising too and the vaccine program gaining momentum the Federal Reserve will increasingly face questions about potential timing on moving towards a more neutral monetary policy stance

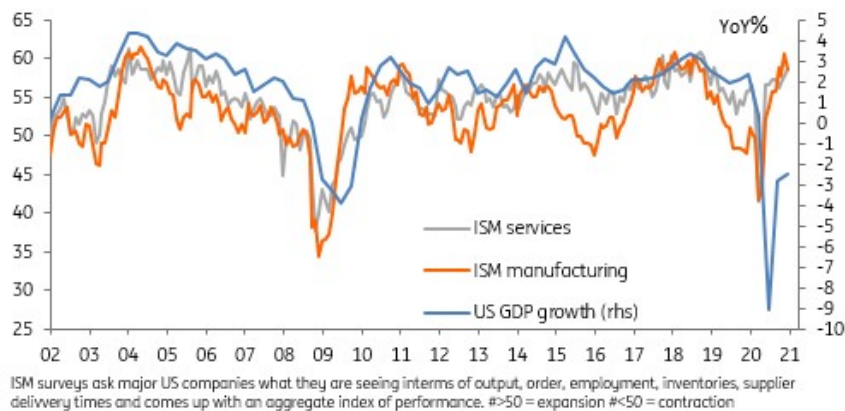


Source: iStockphoto

An improving growth backdrop

The January reading of the ISM services index confounded expectations of a dip to post a 23-month high of 58.7 (consensus 56.7). New orders rose to 61.8 from 58.6 while business activity held at a robust 59.9 where anything above 50 equates to expansion. The main negative was a 10 point drop in new export orders, but this index is not seasonally adjusted and could be related to the Chinese New Year as well as the effective lockdowns in Europe.

ISM surveys point to a robust economic recovery



Source: Macrobond, ING

With rising jobs and inflation pressures...

Meanwhile employment jumped to 55.2 from 48.7. With both the manufacturing and services ISM services reporting such strong employment jumps it bodes well for job creation in the months ahead. This follows on from the today's ADP private payrolls number, which also came in above expectations posting a 174,000 gain versus a consensus forecast of a 70,000 rise.

However, we wouldn't get too carried away with the implications for this Friday's jobs report given the data collection is the week of the 12th of January. There will still be legacy drags from the California stay-at-home orders and the closure of dine-in eating in New York and other cities.

The California restrictions were, last week, partially rescinded with the benefits of the re-opening of restaurants (for outside dining), hair salons and nail bars in America's most populous state likely to show up much more in the February report. We also know that New York restaurants are allowed to re-open for dine-in eating from February 14 (at 25% capacity) so that will show up in the March report. For this Friday's January jobs report we are still forecasting employment growth in the 50-100k range.

Inflation pressures remain elevated at 64.2 (previously 64.4), but are much more modest than in the manufacturing sector where rising commodity and energy prices are having a major impact. Nonetheless, decent activity, rising prices, rising jobs and a vaccination program gaining momentum will increase doubts that the Fed will continue with QE on its current scale for another 12M and that it will be more than 3 years before the Fed hikes rates from zero.

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 www.ing.com.