US surveys slide further on trade uncertainty

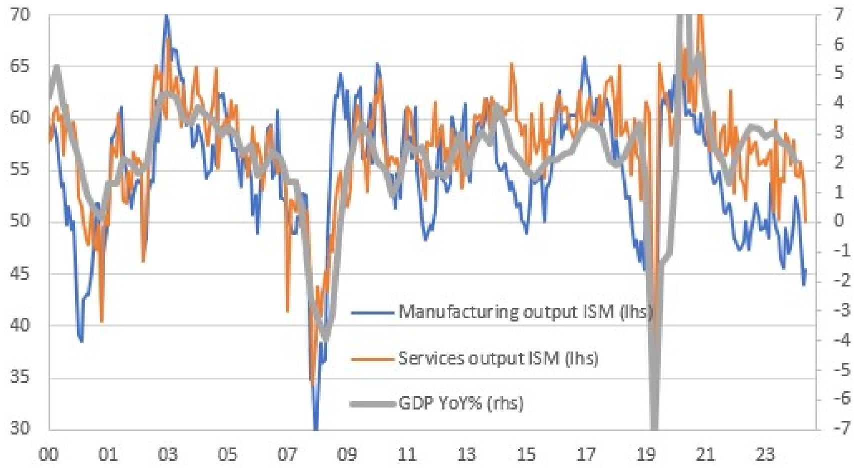
Very weak ISM service sector data and a soft jobs number from the ADP indicate that the corporate sector remains concerned about the economic environment despite the recent de-escalation in some of the trade tensions. Until there is clarity on the trading envirtonment it appears that the business sector will remain wary of putting money to work

The ISM services index dropped into contractionary territory in May

ISM services moves into contraction territory

Today's US economic data has provided more reason for caution on the US economic outlook. The key report was the surprisingly soft ISM services index, which has dropped below the 50 break-even level into contraction territory for the first time since June last year. The 49.9 outcome for May is down from April's 51.6 and below the consensus forecast of 52.0. It also means that we have both the services survey and the manufacturing survey pointing to tougher times ahead for the economy. The chart below shows the relationship between the ISM manufacturing and service sector output series. Both are now reporting a clear softening that points to the risk of much cooler GDP growth in the second half of 2025.

ISM activity balances versus GDP growth



Source: Macrobond, ING

The main disappointment was in new orders, which dropped to 46.4 from 52.3 while overall business activity ground to a halt at 50.0 versus 53.7 in April. The backlog of orders was also very weak at 43.4, which doesn't bode well for a revival in output in the immediate future especially with trade uncertainty continuing. Employment did rise to 50.7 from 49.0, but this is consistent with only a modest gain in payrolls on Friday.

A cooling jobs market underscores corporate wariness

In that regard the ADP reported that according to their numbers US private sector payrolls rose only 37k in May, below the 114k consensus while April 's reported figure was revised down to 60k from 62k. This is the weakest outcome since March 2023. That said, the ADP number has been a poor guide to the all-important non-farm payrolls figure published by the Bureau of Labor Statistics, which we will get on Friday. For example, private non-farm payrolls rose 167k in April according to the BLS while the ADP says it was only 60k.

That discrepancy shouldn't in theory be that wide given one of ADP's main business lines is as a payrolls service company so they should have an excellent sample of employment numbers at their finger tips. However, the ADP data is consistent with the soft ISM employment component. Consensus for Friday's jobs report is currently 130k, which is a little below the 6M moving average of around 160k. Recently the 6M average has been the best predictor of what the subsequent jobs number will be. Nonetheless, today's ADP number did trigger an immediate response from the President: @realDonaldTrump ADP NUMBER OUT!!! “Too Late” Powell must now LOWER THE RATE. He is unbelievable!!! Europe has lowered NINE TIMES!

With prices paid rising to 68.7 versus the 50 break-even level within the ISM services report the Federal Reserve will remain reluctant to acquiesce to Donald Trump's demands for the next few months at least. This means that the only positive spin I can put on today’s data is that the regional Fed surveys had implied a stronger outcome all round so we could possibly see some upward revisions to the ISM at some point. Moreover, these reports are only surveys and aren’t 'hard' official activity data which still seems to be holding up for now.

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