US surveys surge as 3% growth beckons

Both the non-manufacturing and the manufacturing ISMs back our call of 3% US GDP growth in 2018

Source: iStockphoto

59.9

ISM non-manufacturing index

...at decade plus highs

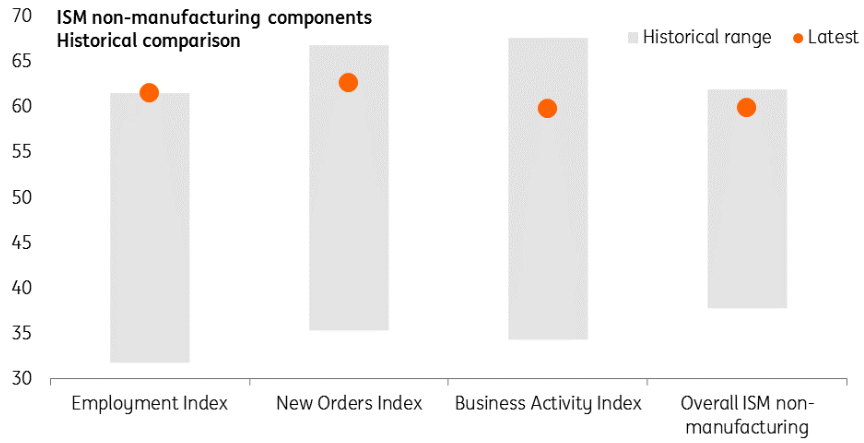
Better than expected

The US ISM non-manufacturing index has risen from a reading of 56.0 in December to 59.9 in January, suggesting the bad weather at the beginning of the month has failed to dent the US economy's momentum. In fact, the headline index is at a 12-year high with the sub-components looking incredibly strong; employment is at its best-ever level in the series' near 21-year history while new orders are at a seven-year high. Production also rose while new export orders gained thanks to stronger global demand and the weaker dollar.

With the non-manufacturing at 59.9 and the manufacturing ISM index at 59.1 versus a break-even 50 level, the US economy looks in fantastic shape right now with tax cuts and the possibility of infrastructure investment adding more fuel to the fire. With wage growth also showing signs of life, there is going to be growing pressure for the Fed to raise its economic forecasts and signal the potential for four rate hikes when they update their numbers at the March FOMC meeting.

It will take something really big to prevent a March rate hike, with the most likely factor probably being a damaging government shutdown. In that regard, Thursday is the next key date and so far there has been little sign of movement to break the deadlock.

ISM non-manufacturing components relative to history



Source: Macrobond, 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 www.ing.com.