50bp from the Fed in May looks odds on

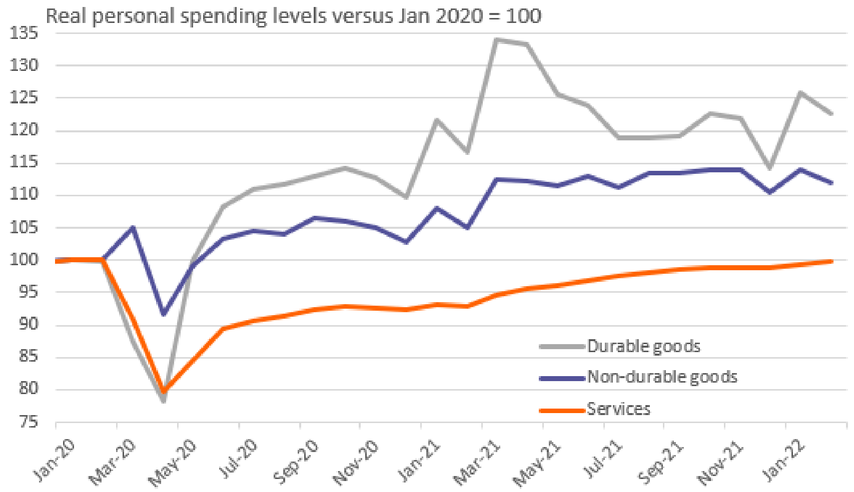
US personal spending, income, jobs and inflation data all point to a vibrant economy that needs monetary policy to become far more restrictive to get price pressures under control. Combined with recent Federal Reserve official comments, this leaves us with the impression if the Fed don't hike by 50bp at the May FOMC meeting, they never will

US consumers at a Walmart store in California

Revisions points to strong 1Q consumer spending

February US personal spending was weaker than anticipated, falling 0.4% month-on-month in real (inflation adjusted) terms and rising 0.2% nominal versus consensus predictions of -0.2% and 0.5% respectively. However, there were some substantial revisions to the history showing a slightly steeper Omicron-related downturn in December and a much sharper rebound in January. The somewhat perverse outcome is that 1Q GDP growth is now looking much stronger than before with consumer spending set to grow 3.6% in 1Q 2022 even if real spending growth is zero in March. Previously something closer to 2% was looking more likely.

Real spending levels, services still has room for growth

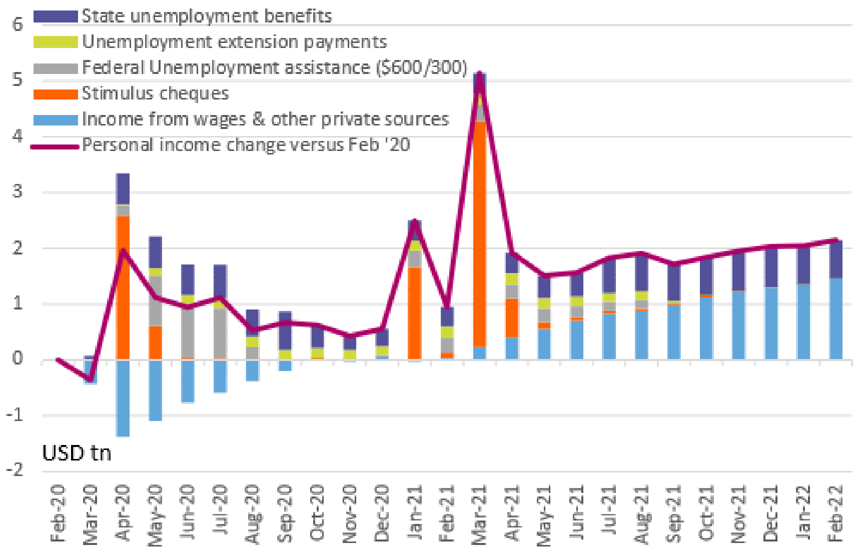


Source: Macrobond, ING

Robust income growth should keep spending firm

We also had income data and this continues to highlight the vibrancy of the labour market. Employment is recovering while wage growth is accelerating and this prompted a 0.7% MoM increase in worker compensation (0.9% for private sector incomes). Government benefit payments shrank 0.3% as fewer and fewer people claim support leaving overall income up 0.5% MoM. With spending rising more slowly we saw the saving ratio tick up to 6.3% from 6.1%.

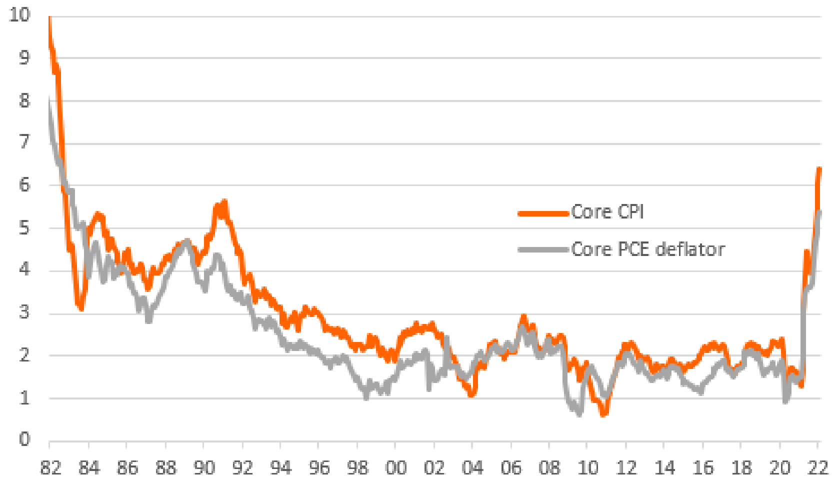
Contributions to household income (change versus February 2020 levels)



Source: Macrobond, ING

Tied into this, initial claims ticked up modestly to 202k from 188k (which was the lowest since 1969) while continuing claims fell to 1307k from 1342k – a new low since the 1969 outcome. As such it reinforces the view that companies are desperate to hire and very, very reluctant to fire. This implies any softness in tomorrow's jobs report would be related to supply of workers and has nothing to do with demand. It also points to upward pressure on wages (and overall incomes) continuing, which is highly supportive for ongoing decent consumer spending.

US core (ex food and inflation) measures



Source: Macrobond, ING

If the Fed don't go 50bp in May, they never will

Meanwhile, the Federal Reserve's favoured measure of inflation – the core (ex food & energy) personal consumer expenditure deflator – rose 0.4%MoM/5.4%YoY. So, putting this altogether we have a decent growth story, very high inflation and an economy that is set to see its unemployment rate dropping to 3.7% tomorrow. If the Fed don't hike rates 50bp in May they never will.

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