2Q rebound expected in the US after Omicron stalls growth

We are cautious on the prospects for 1Q GDP growth given the hit to activity from the Omicron wave. However today's data on industrial activity and jobs gives encouragement the economy can rebound strongly from 2Q, facilitating the Federal Reserve to embark on an aggressive series of interest rate hikes

Omicron leg means growth grinds to a halt in early 1Q

The Omicron wave of the pandemic has hit the US economy pretty hard through December and January. This has already been seen in the steep drop in December consumer spending with daily google mobility data, restaurant dining numbers and air passenger figures showing little sign of improvement in January. Moreover, we can't rule out the possibility of a decline in employment in Friday's jobs report given the rise in jobless claims and the deterioration in the Manpower employment data.

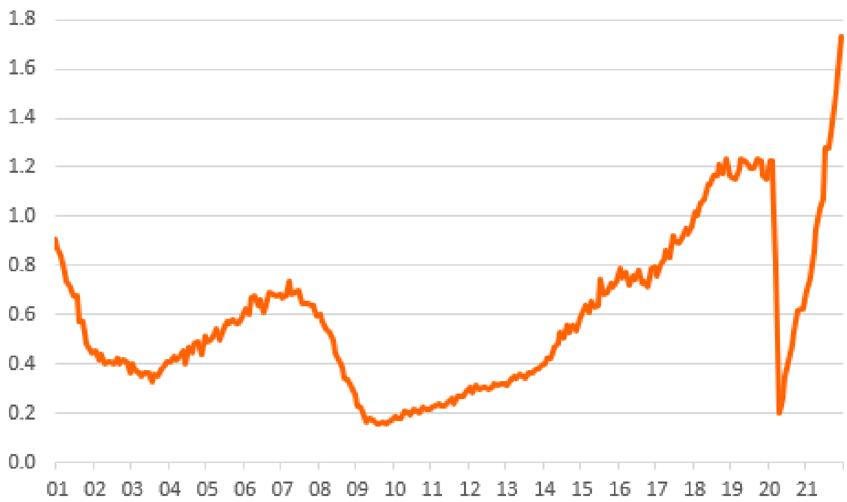
That said, Covid cases are falling in several states and there are hints of an uptick in some states in terms of people movement around retail and recreation venues, which we take as a proxy for spending. Consequently, assuming these trends continue we expect to see more consumer re-engagement with the economy that can pave the way for much better activity number through mid-February into March and beyond.

But the outlook for 2Q is much better as labour demand soars

Today's US data offers encouragement that the underlying fundamentals remain in good shape, particularly surrounding the prospects for the jobs markets. The JOLTS (Job Opening and Labour Turnover statistics) data shows an increase in job openings in December to 10.925mn from an upwardly revised 10.775mn in November, better than the 10.3mn expected. This means that the ratio of job vacancies to the total number of unemployed people is 1.7 – an all-time high.

Consequently, it re-affirms the view that softness in payrolls data is purely a supply side issue with companies desperate to hire staff. This will help to keep upward pressures on wages and therefore the inflation pressures emanating from the labour market. The private sector quit rate slipped back to 3.2% from 3.4%, but we suspect that the Omicron wave made people cautious and reduced people movement also limited peoples' desire to move jobs. This should recover again in the months ahead as the Omicron wave subsides.

Job opening to unemployed ratio surges as demand outstrips supply



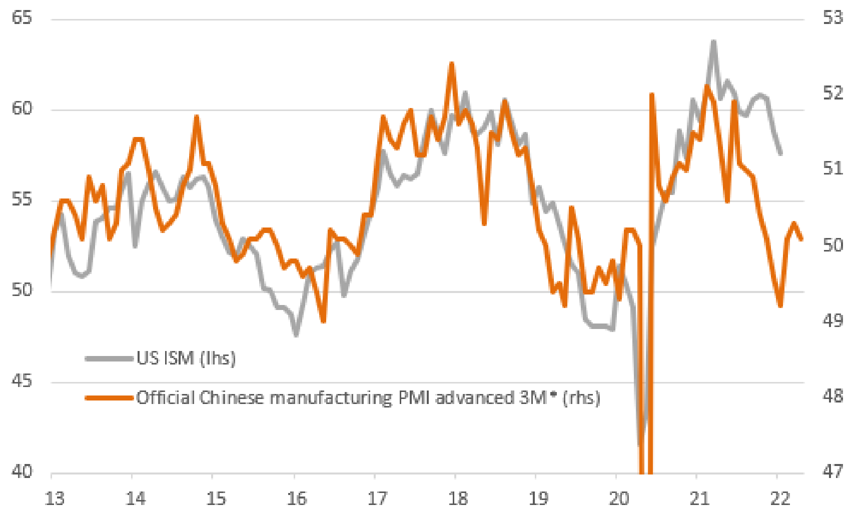
Source: Macrobond, ING

Manufacturing moderation

As for the manufacturing sector, the ISM headline index was in line with expectations, dropping to 57.6 from 58.8. It peaked at 63.7 in March 2021 and has been on a gradual slide since then. Admittedly, this is the weakest reading since November 2020, but given the uncertainty caused by Omicron, we don't think it is bad at all and in any case it is still at historically strong levels – the 30-year average is 52.6 and anything above 50 equates to expansion.

The details show new orders fell from 61 to 57.9 and production fell to 57.8 from 59.4 while employment rose to 54.5 from 53.9 – the highest reading since March 2021. The Fed will be a little concerned to see prices paid jumping to 76.1 from 68.2, indicating no let-up in inflation pressures within the manufacturing sector.

US manufacturing growth is slowing, but not as rapidly as in China

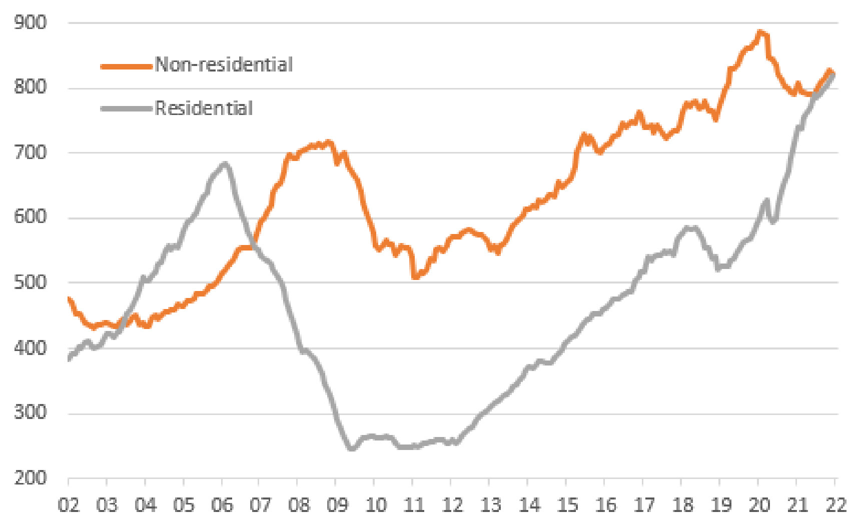


Source: Macrobond, ING

Construction to swing from residential to non-residential

Finally, construction spending was a little below expectations, rising 0.2% in December versus the 0.6% consensus, but there were decent upward revisions. In terms of the numbers, residential construction jumped 1.1% month-on-month, while non-residential fell 0.7%. The roles are likely to reverse through 2022 as non-residential takes the lead on corporate investment and government investment driving construction activity. High house prices and rising mortgage rates are likely to take some of the steam out of the residential market, but on balance growth will be positive. Click here for our more detailed outlook for the US construction sector.

Construction spending ($bn)



Source: Macrobond, ING

Given these respectable data prints, especially in light of the latest wave of the pandemic, it underscores the resilience of the US economy and its ability to withstand higher interest rates. It should also give the Federal Reserve confidence to hike rates in March even if GDP growth, as we suspect, is likely to be close to zero in the first quarter.

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