

Mixed US data offers little clarity on prospect of July Fed rate hike

The Federal Reserve's hawkish hold yesterday suggests an inclination to hike again in July, but today's mixed retail sales and manufacturing data fail to offer a clear steer. The grinding higher in jobless claims is perhaps the bigger story, but it probably won't be enough to lead to a sizeable slowdown in payrolls growth to deter the Fed just yet



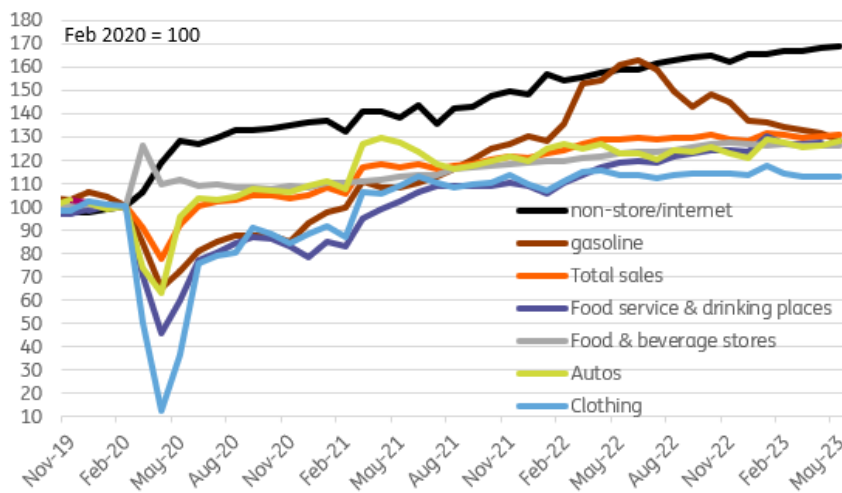
US inflation was slightly higher than expected in September

Retail sales led by autos and building materials

Today's US numbers are a bit mixed and do little to provide clarity on the outlook for interest rates. Retail sales were better than hoped, rising 0.3% month-on-month versus the -0.2% consensus yet the control group (which strips out volatile components and better matches with broader consumer spending trends) came in at +0.2% as expected while there was a downward revision to April from (+0.7% to +0.6%).

The details show building material sales surged 2.2% MoM while motor vehicle and parts sales jumped 1.4% despite the unit auto sales from manufacturers reporting a sizeable contraction (down to an annualised 15.05mn from 15.91mn) and the CPI suggesting prices for new vehicles fell 0.1% MoM. Strip out these two components and retail sales would have fallen 0.5% on a 3M annualised rate. The underlying story is weaker than the headline suggests.

Retail sales levels

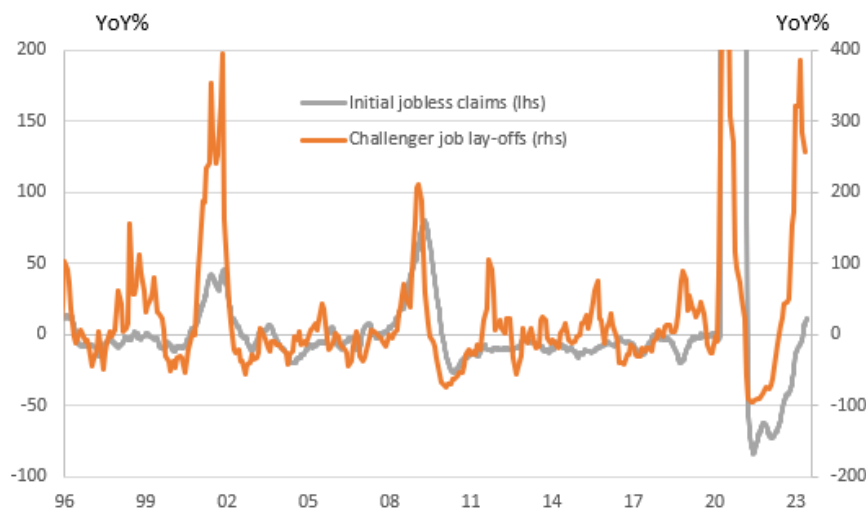


Source: Macrobond, ING

Jobless claims suggest a softening jobs market

Arguably the bigger story is the initial jobless claims numbers. Remember, they surprisingly jumped last week to 261k from 233k. The market had been expecting a retracement back to 245k, but instead, they were revised up last month by 1k and have held at 262k this week. Continuing claims have also moved higher to 1.775mn from 1.755mn (consensus was 1.768mn). This means we have the highest number of initial jobless claims since October 2021 with the job lay-off announcements pointing to jobless claims continuing to grind higher in the coming weeks and months. Consequently, while demand for workers remains firm, the rising lay-offs mean we should anticipate the net gain in payrolls to moderate. Furthermore, there is a concern that we are losing well-paid, full-time jobs in the likes of the tech and business service sectors, and they are merely being replaced by lower-paid, part-time jobs in the leisure and hospitality sectors.

Rising lay-offs suggest jobless claims have further to rise (%YoY%)

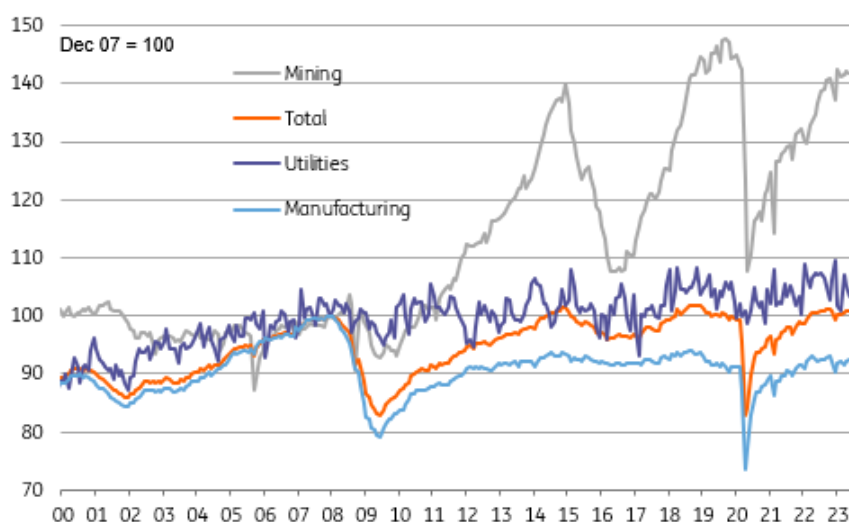


Source: Bloomberg

Manufacturing is weak outside of autos

Meanwhile, May industrial production fell 0.2% MoM versus the +0.1% consensus. Manufacturing actually rose 0.1% rather than contract 0.1% as the consensus predicted, but mining fell 0.4% while utilities output fell 1.8% on reduced electricity consumption. Within manufacturing, auto output rose 0.2% MoM to stand 10% YoY higher given strong order books, but all other components are softer with total manufacturing output down 0.3% YoY and ex-auto manufacturing down 1.1% YoY. The regional manufacturing indicators - the very volatile NY Empire survey and the Philly Fed survey - moved in different directions with the Empire survey strengthening significantly while the Philly Fed softened. The national ISM index has been sub-50 (in contraction territory) for seven consecutive months and these regional indicators suggest we should expect this to continue for an eighth month.

Industrial production levels



Source: Macrobond, ING

Other numbers include import prices falling a little more than expected (-0.6% MoM/-5.9%), underscoring the point made in yesterday's PPI report that pipeline price pressures are weakening swiftly even though the Fed doesn't want to acknowledge it.

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.