

US data strengthens the case for 50bp moves

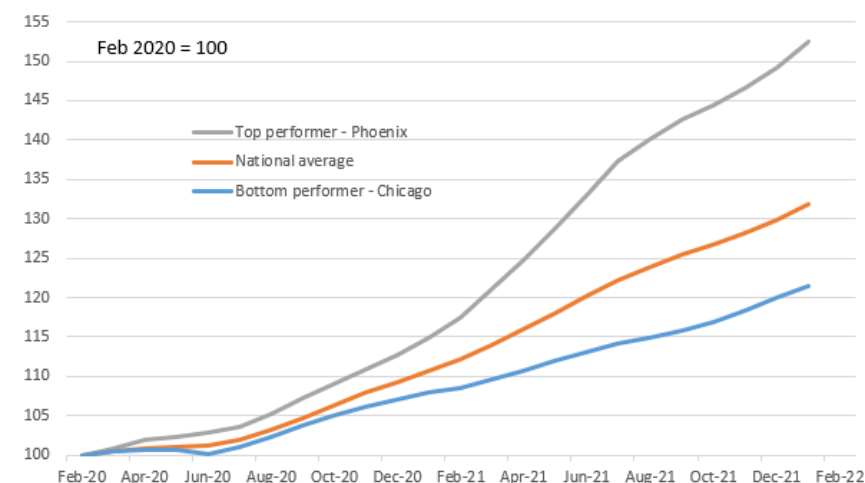
Strong and vibrant housing and jobs markets reinforce the message that the Fed has a lot of work to do to regain control of inflation pressures. Consumer confidence is softening, presumably on the back of higher prices, but at least for now households are happy to keep spending. The case for a series of 50bp Fed rate hikes is growing



Housing prices continue to surge

Today's US economic data shows that the Federal Reserve has got a lot more work to do to get inflation pressures under control. Firstly, the house price data from Case-Shiller shows that nationally, home prices rose 1.56% month-on-month in January, the fastest rate since July last year. This leaves the year-on-year rate at 19.1%. Even more remarkably, house prices on average are now 31.9% higher than they were in February 2020 as massive government and Federal Reserve stimulus supported demand at a time when the stock of property for sales was at multi-decade lows.

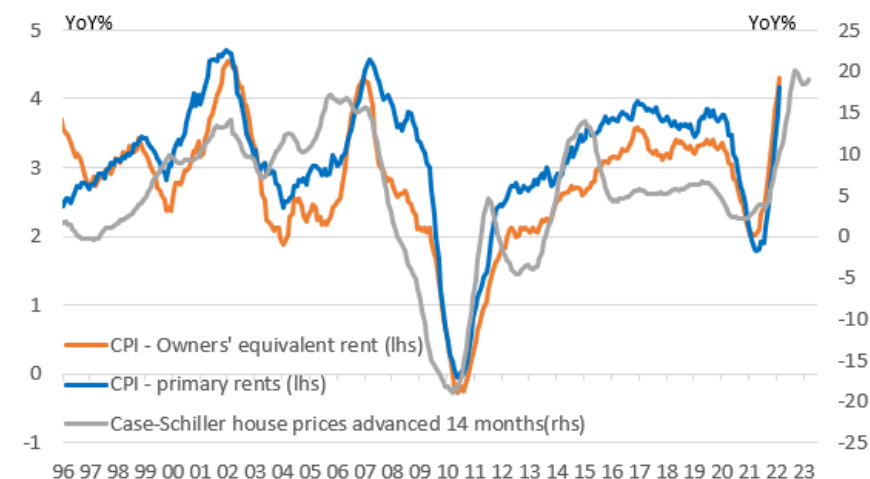
House prices levels versus February 2020



Source: Macrobond, ING

Phoenix is the top performer with prices up 52.5% since February 2020, followed by Tampa (+45.5%) San Diego (+45.3%) and Seattle (+41.4%). The laggard is Chicago (+21.4%) while Washington DC and Minneapolis are both up “only” +21.9%. This will keep pushing the primary rent and owners' equivalent rent components of CPI (35% of the inflation basket) higher over the next year or so and is yet another reason for the Fed to move by 50bp at upcoming meetings.

Strong house price growth will keep overall CPI well above target



Source: Macrobond, ING

Demand for workers vastly outstripping supply

Meanwhile, the Job Opening and Labour Turnover Statistics (JOLTS) data shows there were 11.266mn job vacancies in February versus the-all time high of 11.448mn in December. It equates to nearly 1.8 job vacancies for every unemployed person in America and reinforces over view that should Friday's payrolls report disappoint, it is down to a lack of supply of workers to fill the jobs

available rather than any issue with demand. This tallies with last week's initial and continuing jobless claims data, which were both at their lowest since 1969. Companies are desperate to retain the staff that they have in what is a highly competitive jobs market.

1.8 job vacancies to every unemployed American



Source: Macrobond, ING

The quit rate, the proportion of workers quitting their job to move elsewhere, ticked back up to 2.9% with private sector quits remaining at a 3.2% rate. Leisure and hospitality remains out in front with 5.6% of workers quitting last month, followed by retail on 4.9%. Government at 1.1% and financial services (1.3%) bring up the rear. Nonetheless the overall high quit rate highlights the issue that firms are not only having to pay more to recruit new workers, but also pay more to retain the staff they have. In a service sector economy, the biggest cost is your workforce. Given clear evidence of corporate pricing power this means inflation will stay higher for longer as firms pass higher costs onto their customers.

Confidence an issue, but households are saying one thing and doing another...

Rounding out the numbers, the US Conference board measure of consumer confidence was broadly in line with expectations in terms of its level, but after substantial downward revisions to the history this level is now a rise rather than a fall versus last month - the index is 107.2 but January's reading has been cut to 105.7 from 110.5. Current conditions improved substantially on stronger "jobs plentiful" readings, confirming the JOLTS story, but expectations dropped yet again to the lowest level since February 2014.

This is in contrast with the University of Michigan sentiment index, which is at the lowest level since the Global Financial Crisis and reflects the different weightings the two surveys put on income, inflation and asset prices. Normally the expectations index is the one to watch as this has historically had a better correlation with spending, but the relationship hasn't been great over the past few years. Consumer continue to say one thing and do another.

The case for 50bp moves at May, June and July FOMC meetings grows

As such we have an economy that continues to perform strongly with unemployment set to move even further below 4% while inflation is set to rise close to 9% in the next couple of months. With the Fed seemingly feeling the need to “catch-up” to regain control of inflation and inflation expectations, a rapid fire pace of aggressive 50bp interest rate increases at the next three FOMC meetings is now our base case.

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