US investment and jobs support May 50bp Fed call

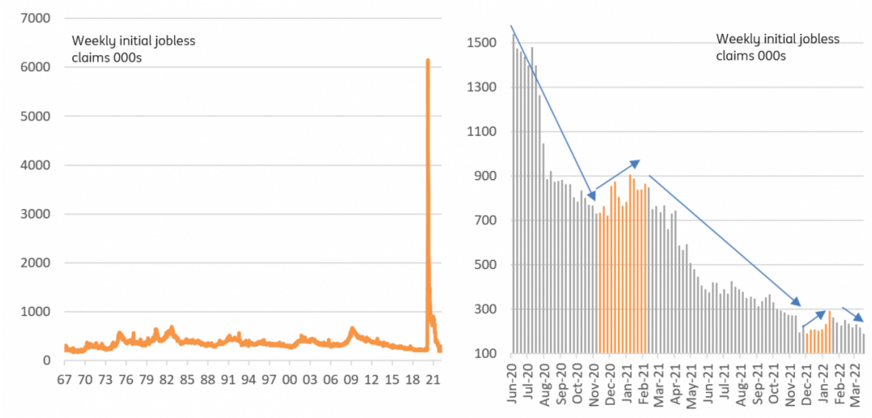
The competition to both hire and retain staff was highlighted by the fact initial jobless claims fell to the lowest level since 1969 last week. While durable goods orders weren't as strong as hoped, the level of activity is very robust and points to strong capex spending. This supports the view that the Fed will hike rates 50bp at the May FOMC meeting

Source: Shutterstock

Unemployment claims hit new lows

We have had a bit of a mixed picture on the US numbers today. Initial jobless claims dropped to 187k in the week of 19 March versus 215k the previous week. The consensus was looking for 210k. This is the lowest initial jobless claims number since 1969, which reinforces the notion that firms want to expand and hire workers rather than fire them. Continuing jobless claims also fell a lot more than predicted, to 1350k from 1417k (consensus 1400k). This too is the lowest since 1969.

US initial jobless claims (000s)



Source: Macrobond, ING

But tight labour supply limits hiring

This is obviously good news and should, in theory, point to decent upcoming payroll numbers. Unfortunately, this report doesn't tell us about labour supply. Next Tuesday's Job Opening and Labour Turnover (JOLTs) statistics are expected to show job openings remaining around the 11 million mark, which equates to 1.7 vacancies for every unemployed person in America.

With labour supply so incredibly tight this will likely limit payroll growth to 500,000 in next Friday's March jobs report while keeping upward pressure on wage growth as the competition to recruit and retain staff remains intense.

Durable goods orders depressed by Boeing volatility

The less positive part of today's data was the decline in durable goods orders. Boeing aircraft orders always swing the headline figure around - Boeing had 37 jet orders in February versus 77 in January, leading to a 30% drop in non-defence aircraft orders and headline orders falling 2.2% (consensus -0.6%).

Even outside transportation, orders were softer, falling 0.6% month-on-month versus a 0.6% gain predicted. A 0.1ppt upward revision to January's figure offers little mitigation. The Fed's favoured measure is non-defence capital goods orders ex-aircraft. This fell a more modest 0.3% MoM and January's growth rate was revised up to +1.3% MoM from 1%, but even so, that in aggregate is weaker than the 0.5% consensus forecast.

Non-defence capital goods orders excluding aircraft ($bn)

Source: Macrobond, ING

But the outlook for investment, wages and Fed rate hikes remains strong

That said, we can take comfort from the fact that the series can be volatile and when we look at the levels, non-defence capital goods orders are 23% higher than they were in February 2020. This indicates a huge step up in investment intentions, which bodes well for decent capex spending within the GDP report through the first half of this year. A strong investment backdrop, coupled with a red hot labour market will only give the Federal Reserve more confidence to hike interest rates by 50bp in May.

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