

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

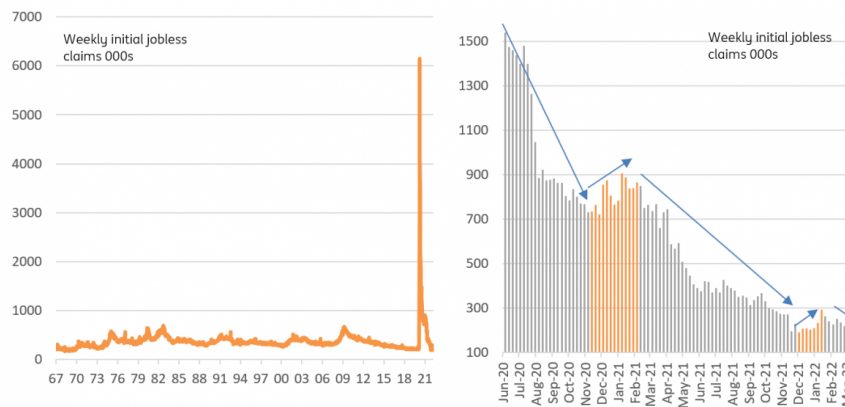


Source: Shutterstock

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.

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.