

Firm spending and softer inflation boost the US soft landing thesis

Consumers continued to spend in respectable moderation in June while inflation data softened further and key labour cost metrics undershot expectations, boosting hopes that inflation can return to target without the need for further Fed rate hikes and a recession



1% QoQ increase in 2Q employment costs

Healthy spending and encouraging inflation boost soft landing hopes

This morning's US macro data is another nice combination that fits the soft landing narrative the market is currently enamoured with. While strongly hinted at in yesterday's 2Q GDP report, we get confirmation of decent consumer spending in June, but not too hot with real personal spending up 0.4% month-on-month (consensus 0.3%) while May was revised up from 0.0 to 0.1%. Yet at the

same time, the inflation metrics are softer with the core personal consumer expenditure deflator – a broader measure of inflation than CPI – confirmed at 0.2% month-on-month/4.1% year-on-year. This is down from 4.6% YoY and is lower than the 4.2% expected. In fact, if we look at three decimal places, we have a 0.161% MoM rise in the core PCE deflator.

Key service sector inflation metrics (YoY%)

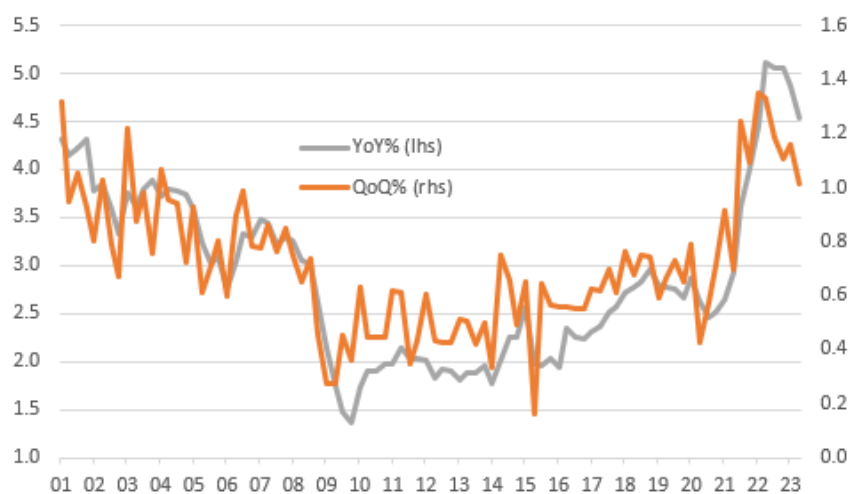


Source: Macrobond, ING

Labour costs are cooling, fuelling hopes of a sustainable return to 2%

Perhaps most significant is the softer employment cost index. It grew 1% quarter-on-quarter in 2Q down from 1.2% in 1Q and below the 1.1% rate expected. This is the slowest rate of increase since 2Q 2021 and importantly was referenced by Fed Chair Jerome Powell in his FOMC press conference earlier in the week as a really important metric officials are focused on. Wages slowed to 1% QoQ from 1.2% while benefits slowed to 0.9% QoQ from 1.2% and this tallies with the commentary from the Fed’s own beige book that stated: “contacts in multiple Districts reported that wage increases were returning to or nearing pre-pandemic levels”.

Employment cost index (QoQ%)



Source: Macrobond, ING

This should give us greater confidence that the Fed's focal point on inflation - core services ex shelter - will continue to slow, just as goods prices and housing are slowing and we can realistically get back to the 2% target without much further, if any, policy tightening.

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 <http://www.ing.com>.