Glimmers of hope for US inflation slowdown

The Federal Reserve's favoured measure of inflation slowed fractionally more than expected, but there was clearer evidence of softening in the so-called "super core" measure that Fed Chair Jay Powell has been focusing on. There is also evidence of a loss of momentum in spending which will dampen prices pressures further down the line

US inflation

Incomes rose, but spending stalled in May

The May US personal income and spending report in aggregate is a touch softer than predicted. Incomes rose 0.4% month-on-month, above the 0.3% MoM expectation, but then we had a corresponding 0.1pp downward revision to April's growth rate from 0.4% to 0.3%. The more interesting story is on the expenditure side with nominal personal spending rising only 0.1% MoM versus 0.2% expected and there were downward revisions to April (from 0.8% to 0.6%). This leaves "real" consumer spending softer at 0% and April was revised down to 0.2% MoM from 0.5%. This means the savings rate has risen from 4.3% to 4.6%.

2Q growth looks to be a fair bit weaker than 1Q as momentum fades

For those that like digging into data, the MoM real consumer spending change was -0.03% MoM to two decimal places. This means if we get a +0.2% MoM real consumer spending print for June, we will have quarter-on-quarter annualised consumer spending of 1% for the second quarter, down from 4.2% in the first. 0.1% MoM for June works out at 0.9% QoQ annualised for 2Q. while 0% MoM reading for June real spending generates 0.8% QoQ annualised.

This report suggests a fair bit of spending momentum has been lost as we progress through 2Q. We are currently pencilling in 0.2% MoM for real spending growth in June. So far, weekly chain store data (Redbook) has been soft and restaurant dining is currently (according to Opentable) running at -3% year-on-year and hotel occupancy is running at roughly -1.5% YoY for June (to June 24) according to our interpretation of STR data. TSA airport security check numbers are up though. A 1% QoQ annualised consumer spending number would leave us struggling to get GDP growth above 1.5% in 2Q.

Service sector inflation appears to be topping out (YoY%)

Source: Macrobond, ING

Early signs of softening in Fed's "super core" inflation measure

Rounding the report out, we see the Fed's favoured measure of inflation, the core PCE deflator coming in at 0.3% MoM/4.6% YoY. A touch softer than the 0.3%/4.7% expected. At 4.6%, this is the slowest rate of core PCE inflation since October 2021. Based on my calculations, the core PCE deflator ex-energy and ex-housing (Fed Chair Powell is focusing on this as it is this component that is most heavily influenced by the tightness in the jobs market since wages make up the biggest cost input and in which demand has been robust) also slowed to 4.6% from 4.7% YoY while Bloomberg's calculations back this up, saying on a MoM basis it came in at 0.23% MoM versus 0.42% in April. This is a really encouraging story since we need to see 0.1s or 0.2s MoM to get inflation to 2% YoY over time. It is early days, but NFIB corporate pricing intentions data and ISM prices series offer clear hope that we will soon consistently see these sorts of figures.

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