

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 price pressures further down the line



US inflation

Incomes rose, but spending stalled in May

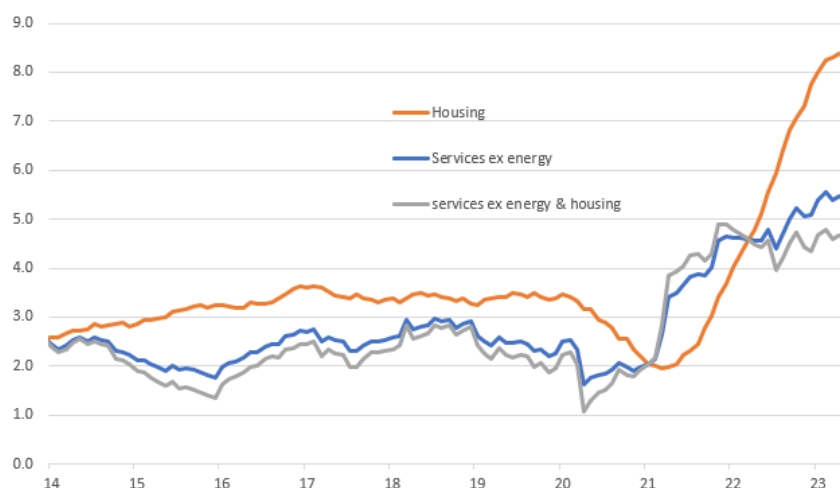
The May US personal income and spending report in aggregate is a touch softer than predicted. Incomes rose 0.4% month-on-month, above the 0.3% MoM expectation, but then we had a corresponding 0.1pp downward revision to April's growth rate from 0.4% to 0.3%. The more interesting story is on the expenditure 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.

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.