

## Key events in developed markets next week

US house prices fell for the first time in more than 10 years in July – we expect the market will slow further with declines in both existing home sales and house starts. For the UK, we see headline and core inflation rates edging higher. However, we believe we are now very close to the peak, given the government's decision to cap household energy bills



Source: Shutterstock

### **US: Housing market showing weakness**

The latest job and inflation readings have cemented expectations of a 75bp hike from the Federal Reserve on 2 November and heightened the chances of a fifth consecutive 75bp hike in December. However, we still favour the Fed slowing the pace of hikes to 50bp on 14 December given the intensifying economic headwinds that should allow inflation to fall quickly through 2023. The housing market is going to be a key factor in this. House prices fell for the first time in over 10 years in July as the surge in mortgage rates prompted a collapse in housing demand. Things have got much worse since then with mortgage applications for home purchases at the lowest level since the housing bear market of 2010-13. With more supply coming on the market the challenge to sell homes is going to increase, which will weigh further on prices and lead to another sharp fall in home builder sentiment this week. Homebuilding looks set to slow further with existing

home sales declining too.

This is bad news for construction, confidence, job creation and retail sales tied to housing transactions such as building supplies, furniture, home furnishings and household appliances. However, it may well help to get inflation lower more quickly and allow the Fed to reverse course on its aggressive interest rate increases next year. Shelter accounts for a third of the inflation basket by weight and historically the shelter series lags behind movements in house prices by around 12-14 months. Over the past couple of weeks rent.com, apartments.com and CoStar Group have all been reporting rent price falls in major cities so this could imply a quicker transmission. We will see how this develops, but with surveys suggesting that corporate pricing and vehicle prices are showing signs of softening, we think the risks are skewed towards inflation falling more quickly through 2023 than the consensus.

## **UK: Fiscal U-turn in focus as Bank of England intervention ends**

Markets have been buoyed by reports that the UK government is preparing a major U-turn on its tax cut plans, which were announced in September and brought widespread disruption to UK bond markets. On paper, the resumption of the planned hike in corporation tax – if done in full – coupled with a revenue cap/windfall tax on renewable and perhaps nuclear energy producers, could materially reduce the government's borrowing requirement over the next couple of years. But with the Bank of England ending its temporary bond buying scheme, investors will need to see these press reports crystallise into concrete and far-reaching plans this weekend to avoid a renewed sell-off in gilts next week. Further volatility is likely in either case, and we still think there's a fair chance the BoE will at the very least need to further postpone its plans to start selling bonds later this month – not least because of the challenging environment created by ongoing Fed tightening. Further bond buying also shouldn't be ruled out.

All of this will also help determine just how aggressively the BoE will need to hike rates in early November. By that point we'll have had the government's Medium-Term Fiscal Plan (ie the full extent of any U-turns) and depending on whether we see a renewed period of sterling weakness between now and then, there's a chance the BoE may be able to get away with a 75bp hike rather than the 100bp move we've been pencilling in. Next week's CPI data is unlikely to be the main decider here, but for what it's worth we see both the headline and core rates edging higher. However, we think we are now very close to the peak, given the government's decision to cap household energy bills.

## Key events in developed markets next week

Country	Time	Data/event	ING	Survey	Prev.
<b>Tuesday 18 October</b>					
US	1415	Sep Industrial Production (MoM%)	0.0	-0.1	-0.2
	1500	Oct NAHB housing index	42	44	46
Italy	1000	Aug Global Trade Balance	-		-0.361
<b>Wednesday 19 October</b>					
US	1330	Sep housing starts (000)	1450	1485	1575
UK	0700	Sep Core CPI (YoY%)	6.3		6.2
	0700	Sep CPI (MoM%/YoY%)	0.5/10.1		0.5/9.9
Canada	1330	Sep CPI Inflation (MoM%/YoY%)	0.1/6.9		-0.3/7
	1330	Sep CPI BoC Core (YoY%)	5.2	5.2	5.2
Eurozone	1000	Sep CPI (YoY%)	-	10	10
<b>Thursday 20 October</b>					
US	1330	Initial Jobless Claim	235	-	228
	1330	Continue Jobless Claim	1380	-	1368
	1500	Sep existing home sales (mn)	4.5	4.69	4.8
Eurozone	1000	Aug Current Account SA (EUR bn)	-		-19.86
<b>Friday 21 October</b>					
UK	0700	Sep Retail Sales (MoM%/YoY%)	-0.5/-5.0		-1.6/-5.4
	0001	GfK Consumer Confidence	-50		-49
Canada	1330	Aug Retail Sales (MoM%)	-		-2.5
Sweden	0700	Sep Unemployment Rate	-		6.6
Eurozone	1500	Oct Consumer Confidence Flash	-		-28.8

Source: Refinitiv, ING

## Authors

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@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>.