

More room for Fed flexibility as US inflation fears recede

Thursday's CPI report offered hope that inflation is moving in the right direction, while PPI suggested pipeline price pressures remain modest. The University of Michigan sentiment index indicates households are less fearful of inflation so the past two days of data offer reasons for optimism that the Fed doesn't need to hike interest rates further



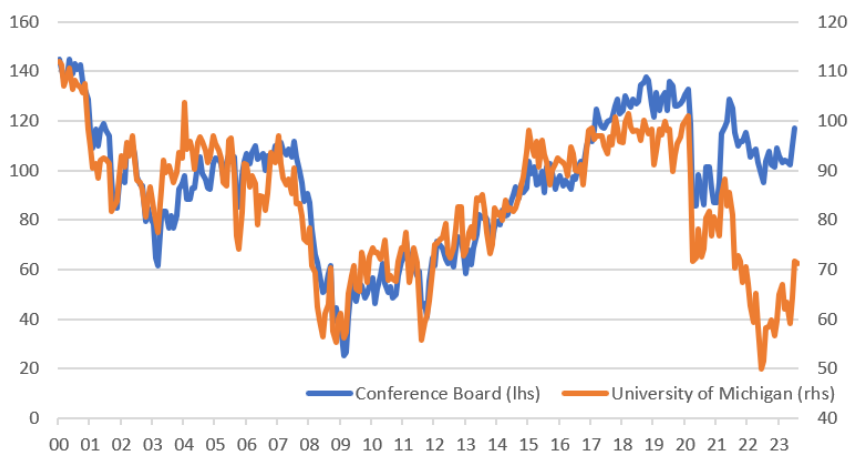
Fed Chair Jerome Powell and US Treasury Secretary Janet Yellen pictured in Washington last month

Sentiment holds firm

Rounding out the US data for this week, we have the August preliminary reading of the University of Michigan measure of consumer sentiment. It dipped ever so slightly to 71.2 from 71.6, and it's exactly in line with market consensus expectations. The current conditions index improved to 77.4 from 76.6 (likely due to the strong jobs market), but the expectations series fell to 67.3 from 68.3 (probably because of the recent equity market weakness and higher gasoline prices).

What you ask yields different results

University of Michigan versus Conference Board sentiment

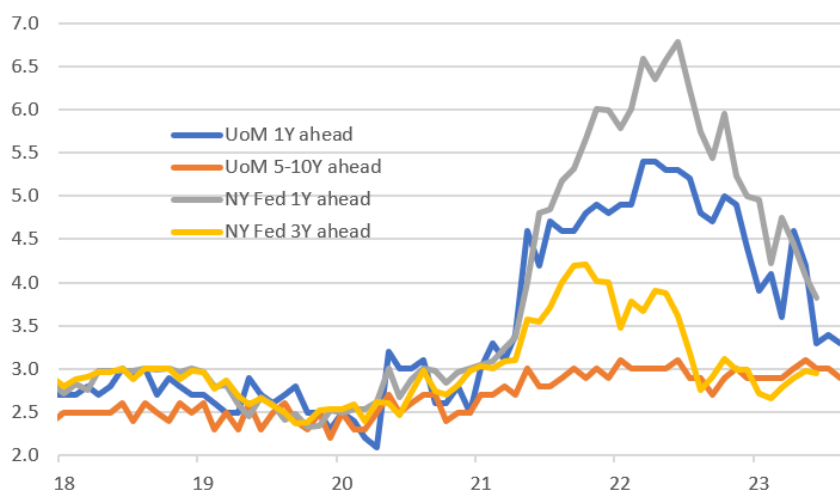


Source: Macrobond, ING

As the chart above shows, the University of Michigan sentiment index has reported weaker confidence readings relative to pre-pandemic levels than the Conference Board measure of consumer confidence has. This highlights that what you ask determines what you get in these sorts of surveys. The Conference Board puts greater emphasis on labour market-related responses, while the University of Michigan survey reflects more the consumer finance environment and the impact of higher inflation. Nonetheless, both are off their lows, even if they don't paint an especially upbeat picture for consumer spending prospects.

Consumer inflation expectations

YoY %



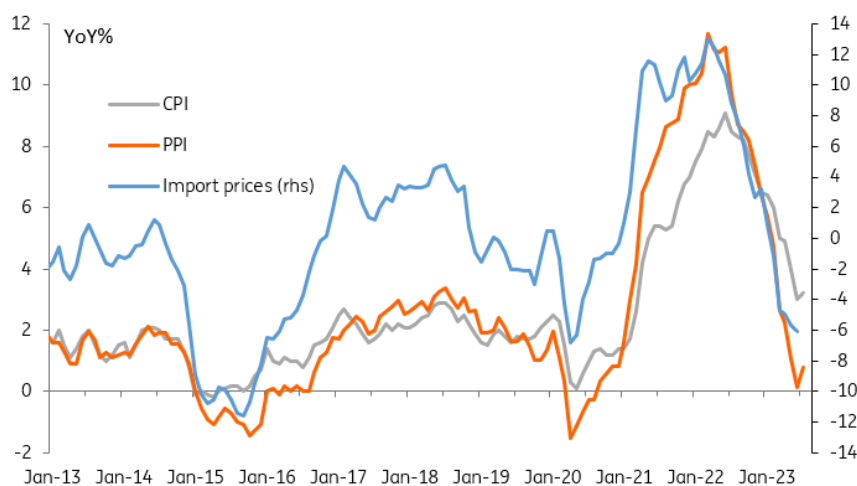
Source: Macrobond, ING

Consumer inflation expectations edge lower as price pressures moderate

We also closely watch the price expectations series, and there was some encouraging news here with 1Y ahead expectations slowing to 3.3% from 3.4% (the market had looked for it to rise to 3.5% given those gasoline price increases) while the 5-10Y expectation dropped to 2.9% from 3%; the market had expected it to hold at 3%. We have to acknowledge that the population sample size used for these price expectations series is pretty small, but it is a data point that does get noticed and any slowdown is going to be viewed as good news by the Federal Reserve.

US import price, producer price and consumer price inflation

YoY %



Source: Macrobond, ING

With the PPI report earlier in the day suggesting pipeline price pressures remain modest, coming after yesterday's better-than-expected CPI report, we believe it right that the market remains doubtful that the Fed will carry through with the final interest rate hike they predicted in their June forecast update. With the headwind from higher borrowing costs and tighter lending conditions set to intensify economic headwinds and the restart of student loan repayments in October set to squeeze the finances of millions of households, we expect the Fed will leave rates on hold through early 2024 with a strong chance of a rate cut as early as next March.

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.