Tame US inflation gives the Fed room for more rate cuts

US CPI was surprisingly soft in November with an annual headline rate of just 2.7%. There is some scepticism due to the scale of the downside 'miss' relative to analyst expectations and the impact of the government shutdown, but it explains why Fed Chair Powell sounded so relaxed last week. This leaves the door wide open for earlier, swifter 2026 rate cuts

US goods prices, excluding food and energy, were unchanged on the month in January

2.6% Annual core inflation (YoY%)

Lower than expected

US inflation undershoots all forecasts in November

November’s consumer price inflation report was remarkably soft given the backdrop of tariffs and

concerns over insurance costs. Remember we don't get month-on-month data due to no survey being conducted in October because of the government shutdown, but we have year-on-year prints and for headline that came in at 2.7% versus 3% in September and a 3.1% consensus prediction, while core (ex food and energy) inflation was just 2.6% versus September's 3% outcome and a consensus projection of 3%. That 2.6% outcome was 0.2pp below even the lowest forecast submitted to Bloomberg in their consensus survey.

We had assumed we would get something closer to 3.1% for core inflation, which would have implied MoM increases of 0.3% for October and November, but today's outcome suggests prices rose 0.2% over the two-month period in total! In terms of the main components helping to depress the annual inflation rates, food price inflation slowed 0.5pp to 2.6%, led by a 0.8pp slowing in grocery to 1.9% YoY. Used vehicles slowed to 3.6% from 5.1%, which is a surprise based on auction prices. Both of the main housing components slowed by 0.4pp while medical care services slowed by 0.6pp to 3.3%. There was less of a drop in core goods (to 1.4% YoY from 1.5% YoY), but that is still a good outcome given tariffs. Energy prices did rise, but this is temporary given gasoline is now below $3/gallon nationally.

Some scepticism is justified

Now there is likely to be some scepticism of the numbers in this report, given how big a downside 'miss' this was for the analyst community and what the government shutdown meant for data collation. As such, there is likely to be a tendency to want to see what the December report contains before making major changes to forecasts. Nonetheless, this report underlines why Fed Chair Powell appeared so relaxed on the inflation front at last week's Federal Reserve press conference. He suggests that the tariff impact will peak in the first quarter of 2026 and we agree. Thereafter, falling gasoline prices, slowing housing rents and weaker wage growth mean we are on track to get towards 2% inflation far faster than the Fed was forecasting last week.

Wage costs are set to slow further

Source: Macrobond, ING

Wages, rents and gasoline to push inflation closer to 2% earlier than the Fed expected

In a service-sector-led economy, such as the US, the biggest cost input is labour and, with there being more unemployed people in the US than there are job vacancies, this suggests wages will

continue slowing. Moreover, the plunging quits rates – the lack of jobs out there and worker caution means people are sticking in their current role and in this environment there is no pressure on companies to offer bumper pay rises – points to wage growth slowing to just 2.5%. That's well below rates seen as historically consistent with the Fed's 2% inflation target.

Our central view remains a rate cut in March and a second in June, but the risks seem skewed towards the Fed being able to deliver more unless the jobs market starts to stabilise.

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.