

THINK Ahead: What if US inflation is much lower than we think?

James Smith's indispensable guide to what you should be watching out for next week



ING's James Smith on next week's world today

What if US inflation is much lower than we think?

Here's something that might surprise you: US core inflation is at 2% and has been since last July.

That might sound like a parallel universe. Certainly, it goes against everything we've heard about US inflation so far this year.

But here's the thing, official data published in the US shows that if you calculate inflation in the same way we do here in Europe, then that is exactly what is happening.

Before getting too carried away, I should say that this is not the price gauge the Fed is watching. And markets can't be blamed for not doing so either.

It's a reminder, though, that the way we measure inflation matters – a lot. The US famously puts a much greater weight on housing than we do in Europe. And that helps to explain why the more mainstream CPI data puts core inflation up at 3.6%.

Even then, the numbers don't always add up. James Knightley reckons next week's PCE deflator – the Fed's preferred inflation gauge – should look a little less worrisome than those CPI figures a couple of weeks back. Much of the discrepancy can be traced back to car insurance, which you'd think shouldn't be keeping policymakers up at night.

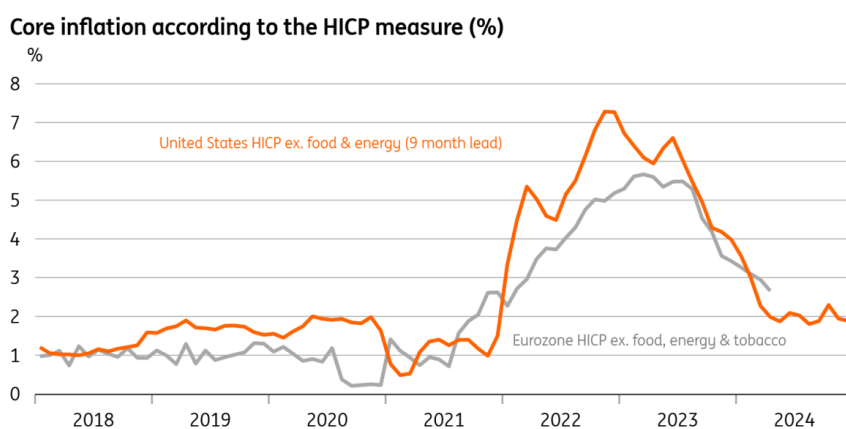
Anyway, if US inflation really is more benign than we've come to believe, then that can only be good news for Europe. Take the stat we mentioned right at the start. That "harmonised" measure of US core inflation has been a decent predictor of the eurozone data a few months down the road. Have a look at our chart of the week below.

It's a relationship that holds when you look at individual categories, too. Things like food and consumer goods are still contributing more to inflation in Europe than in the US – particularly here in the UK - and America's experience suggests that's unlikely to be the case for long.

So when central banks here in Europe tell us there is nothing to fear from the recent resurgence in the US data, maybe they've got a point. Still, life's rarely that straightforward. Services inflation is not helping the case for rate cuts here in Britain. And as Bert Colijn explains, a surprise pick-up in eurozone negotiated wage growth is a headache for the ECB, too. We'll get fresh inflation data for the eurozone next week.

The lesson for markets is two-fold. If US inflation really is less worrisome, then the Fed has nothing to fear from rate cuts. Remember James K is betting on three rate cuts this year from September. That's more than markets currently expect. And if eurozone inflation really is that similar to the US, then it's hard to see the ECB going its own way on rate cuts for long. Just like the US, our team expects three cuts in the eurozone over the course of 2024.

Chart of the week: US 'harmonised' core inflation is a remarkable lead indicator for the eurozone



Source: Macrobond, ING

THINK ahead for developed markets

Eurozone unemployment rate (Thu); The eurozone unemployment rate has hovered around 6.5% for some time now. This is actually the lowest it has been since the eurozone started in 1999, which is an important reason to expect the ECB to be in no rush to cut rates aggressively. Recent labour market developments suggest continued labour market strength as businesses indicate that they continue to hire with economic activity picking up. But it will be hard to see unemployment go much lower. Beware of revisions, which happen often to eurozone unemployment but a stable reading for April seems to be in the making. *Bert Colijn*

Eurozone CPI/Core CPI (Fri); Ahead of the ECB meeting in early June, this is the most anticipated

piece of data still to come out. Wage growth came in higher than expected which the ECB quickly dismissed as being related to one-offs. Still, if inflation surprises to the upside, the ECB will be less comfortable cutting as these things add up. There is not much reason to expect any ugly surprises here though. Headline inflation may tick up on the back of higher energy prices, but core inflation developments look relatively stable at the moment. *Bert Colijn*

THINK ahead for Central and Eastern Europe

Poland CPI Inflation (Wed): In Poland, the StatOffice will release the flash estimate of May CPI inflation. Our preliminary forecast points to a further increase in inflation to 2.9% year-on-year from 2.4% YoY in April, continuing the upward trend. A further upswing in price dynamics was, in our view, mainly driven by annual increases in food and fuel prices. Rising inflation is among the factors that will prevent the MPC from cutting rates this year. *Adam Antoniak*

Czech Republic 1Q GDP Final (Fri): The final number for first quarter real GDP is expected to confirm the previous estimate of a 0.4% quarterly increase. That said, the elevated export numbers in the current account for March increase the likelihood of a possible upward revision of the recorded economic performance. The Statistical Office has announced that it will publish an extensive revision of the national accounts from 1990 onwards on 28 June, so major changes in the historical data are possible. Overall, strong retail sales and robust export performance signal a solid cyclical recovery underway. *David Havrlant*

Turkey 1Q GDP (Fri): 1Q GDP will likely be relatively strong due to fiscal effects and the minimum wage hike. Accordingly, we expect growth to be 5.7% YoY. However, following the surge in loan demand in the run-up to the local elections held at the end of March, the Central Bank of Turkey imposed restrictions on TRY-denominated loans. Recent data shows that these restrictions led to a sharp slowdown in credit growth. Accordingly, the GDP growth is expected to lose momentum in 2Q and 3Q due to the erosion in purchasing power, with continuing pricing pressures and tightening financial conditions after the CBT's actions in March. *Muhammet Mercan*

Key events in developed markets

Country	Time	Data/event	ING	Prev.
Monday 27 May				
Germany	0900	May Ifo Business Climate	90.5	89.4
	0900	May Ifo Current Conditions	89.6	88.9
	0900	May Ifo Expectations	91	89.9
Tuesday 28 May				
US	1400	Mar CaseShiller (MoM%/YoY%)	0.3	0.6/7.3
	1500	May Consumer Confidence	95	97
Wednesday 29 May				
US	1900	Federal Reserve Beige Book		
Germany	0700	Jun GfK Consumer Sentiment	-22.5	-24.2
	1300	May CPI Prelim (MoM%/YoY%)	0.4/2.7	0.5/2.2
Italy	0900	May Consumer Confidence	-	95.2
Spain	0800	Apr Retail Sales (YoY%)	-	0.6
Eurozone	0900	Apr Money-M3 Annual Grwth	0.8	0.9
Thursday 30 May				
US	1330	Q1 GDP 2nd Estimate	1.5	1.6
	1330	Q1 GDP Deflator Prelim	3.1	3.1
	1330	Q1 Core PCE Prices Prelim	3.7	3.7
	1330	Initial Jobless Claims	220	215
	1330	Continuing Jobless Claims	1800	1.794
Italy	0900	Apr Unemployment Rate	-	7.2
Spain	0800	May CPI (MoM%/YoY%) Flash NSA	-	0.7/3.3
Sweden	0700	Q1 GDP Final (QoQ%/YoY%)	-	-0.1/-1.1
Switzerland	0800	Q1 GDP (QoQ%/YoY%)	-/-	0.3/0.6
Eurozone	1000	May Business Climate	-	-0.53
	1000	May Economic Sentiment	96.3	95.6
	1000	May Consumer Confidence Final	-	
	1000	Apr Unemployment Rate	6.5	6.5
Friday 31 May				
US	1330	Apr Personal Income (MoM%)	0.3	0.5
	1330	Apr Personal Consumption Real (MoM%)	0.1	0.5
	1330	Apr Consumption, Adjusted (MoM%)	0.4	0.8
	1330	Apr Core PCE Price Index (MoM%)	0.3	0.3
	1445	May Chicago PMI	42	37.9
Germany	0700	Apr Retail Sales (MoM%/YoY%)	-0.6/0.5	1.8/0.3
France	0745	Q1 GDP (QoQ%/YoY%)	-/-	0.2/1.1
	0745	May CPI Prelim (MoM%/YoY%)	-	0.6/2.4
Italy	0900	Q1 GDP Final (QoQ%/YoY%)	-/-	0.3/0.6
	1000	May CPI Prelim (MoM%/YoY%)	-/-	0.5/0.9
Canada	1330	Q1 GDP (YoY%)	-	0.93
	1330	Mar GDP (MoM%)	-	0.2
Portugal	0930	May CPI Flash (YoY%)	-	2.2
	1100	Q1 GDP (QoQ%/YoY%)	-/-	0.7/1.4
Austria	0800	Q1 GDP Growth (QoQ%) Final	-	0.2
Eurozone	1000	May CPI Flash (YoY%)	2.5	2.4
	1000	May Core CPI Flash (YoY%)	2.6	2.7

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time	Data/event	ING	Prev.
Monday 27 May				
Poland	0900	Apr Unemployment Rate	5.1	5.3
Tuesday 28 May				
Croatia	1000	Q1 GDP (YoY%)	4.1	4.3
Wednesday 29 May				
Poland	0900	Inflation Rate Prelim (MoM%/YoY%)	0.5/2.8	1.1/2.4
Russia	1700	Apr Industrial Output	4.3	4.0
	1700	Apr GDP (YoY%) Monthly	-	4.2
Thursday 30 May				
Turkey	0800	Apr Trade Balance	9.9	-7.34
	1200	Apr Bank NPL Ratio	-	1.49
South Africa	0700	Apr M3 Money Supply (YoY%)	-	6.85
	0700	Apr Pvt Sector Credit Ext.	-	5.18
	1030	Apr PPI (MoM%/YoY%)	-/-	1.1/4.6
Friday 31 May				
Turkey	0800	Q1 GDP Quarterly (YoY%)	5.7	4
Czech Rep	0800	Q1 Final GDP (QoQ%/YoY%)	0.4/0.5	0.4/0.5
Hungary	0730	Mar Trade Balance Final	1510	1510
Kazakhstan	0700	May Base Interest Rate	14.25	14.75
South Africa	1300	Apr Trade Balance (Incl. Region)	-	7.27

Source: Refinitiv, ING

Authors

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Bert Colijn

Chief Economist, Netherlands

bert.colijn@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>.