

US inflation numbers boost chances of a pause in Fed rate hikes

While US inflation came in broadly in line with expectations, there are signs of softening in some key categories. While housing costs and vehicle prices continue to run hot, the outlook is improving rapidly. This should cement expectations for the Fed to keep rates unchanged tomorrow but the commentary around the decision is likely to remain hawkish



A shopping mall in Washington DC

0.4%

US core inflation in May

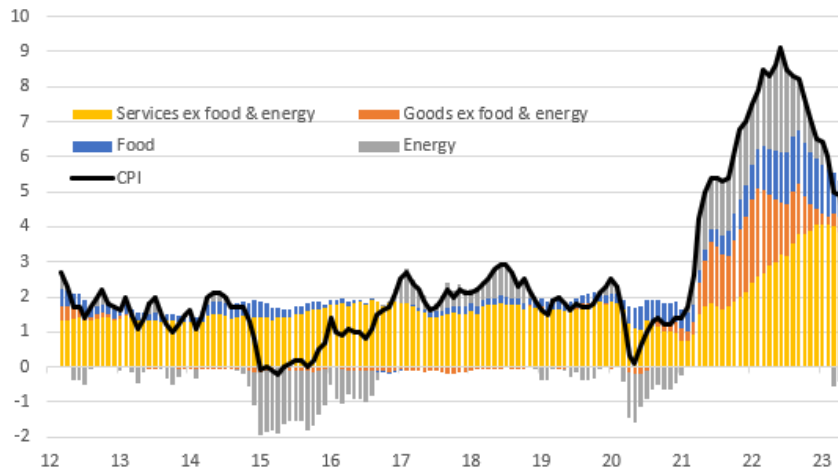
5.3% YoY

Inflation slowdown continues

US consumer price inflation for May is broadly in line with expectations. The headline rate rose 0.1%MoM or 4.0%YoY (consensus 0.1 and 4.1, respectively), down from 4.9% and the slowest rate of headline inflation since March 2021. Meanwhile, core CPI (excluding food & energy) rose

0.4%MoM / 5.3% (consensus 0.4% / 5.2%). This is down from 5.5% and is the slowest annual rate for core inflation since November 2021.

Contributions to annual US inflation



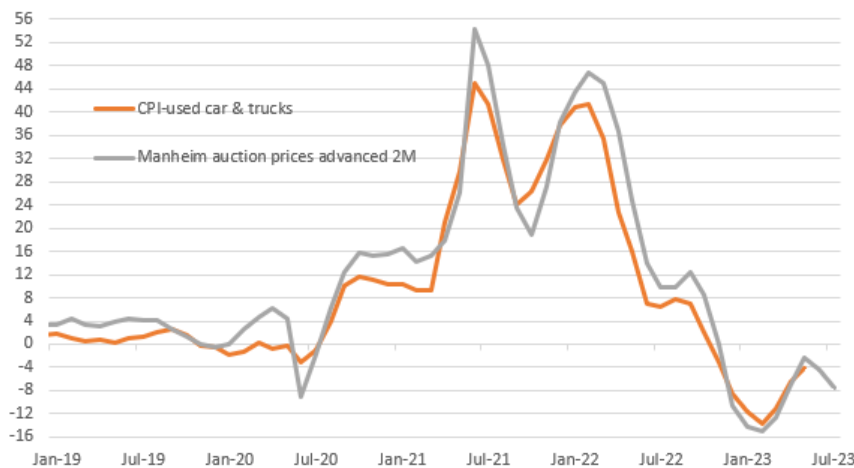
Source: Macrobond, ING

Car prices the main upside thrust, but this will change

The main downside pressures came from gasoline prices falling 5.6%MoM while airline fares fell 3%, with education falling 0.2%. The main upside pressures came from two of the biggest components. Shelter (43% weighting within core CPI basket) continues to run hot at 0.6%MoM while used cars jumped 4.4%MoM. This was the big upside impetus, and if it weren't for that we would have got a 0.3% or even a 0.2%MoM print for core CPI (4.4%MoM reading with a weight within the core inflation basket of 3.35% means it contributed 0.15pp of the 0.4% print).

This component lags behind Mannheim used car auctions by two months, and they have fallen 5.7% over the past couple of months. With new vehicle prices having fallen for the past two months as well, we look for used car prices to contribute to slower inflation annual numbers in the coming months.

Used car prices will turn lower again based on auction prices

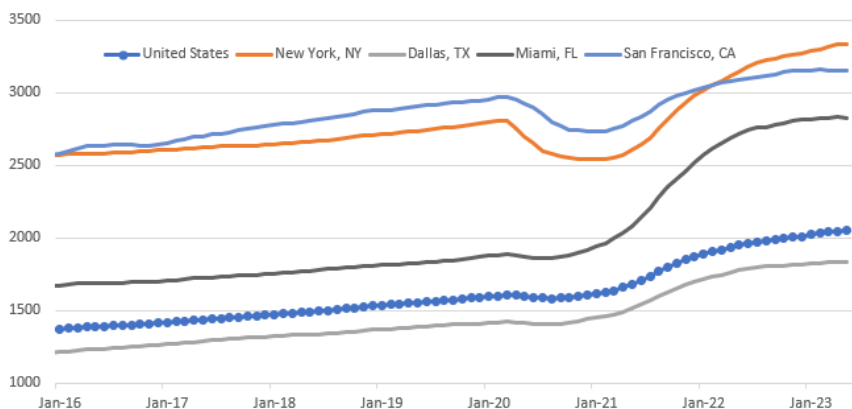


Source: Macrobond, ING

Rent slowdown should see shelter costs slow

In terms of shelter, we are also seeing encouraging developments with the chart below showing Zillow observed rents clearly topping out. New York is a little different, but even so, nationally we see the shelter components slowing sharply through 2H 2023. This means that effectively more than half of the core CPI baskets (shelter & new & used vehicles account for 51.5% of the total CPI basket and 52% of the core basket) could be contributing very little by the end of the year.

Zillow observed rents (metropolitan areas \$/month)

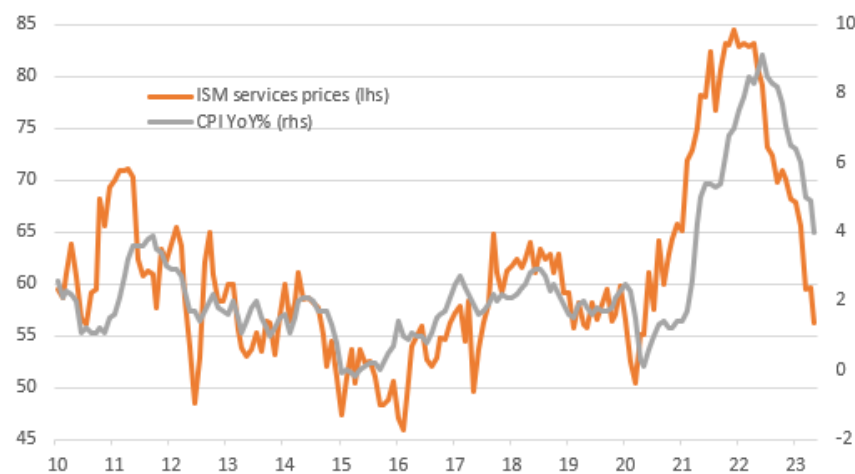


Source: Macrobond, ING

Service sector pricing slowdown should aid slower CPI

We then look more broadly, and the weakness in business sentiment (NFIB small business optimism and the Conference board measure of CEO confidence are at recessionary levels) implies business leaders are becoming more cautious and this is leading to a dampening in corporate pricing power and price intentions. Note, too, that the service sector ISM also points to the slowdown in inflation gaining more momentum.

ISM services prices offers hope CPI can continue to slow rapidly



Source: Macrobond, ING

Fed pause could mean the peak has been reached

All in all, today's report is neutral to dovish despite the annual rate of core inflation coming in a touch above consensus. This should support expectations of a no-change outcome from the Fed tomorrow, and if we are right that CPI starts to show more meaningful signs of a slowdown, we think it will mark the peak for US rates even if the Fed does put an extra hike into its dot plot tomorrow.

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 <http://www.ing.com>.