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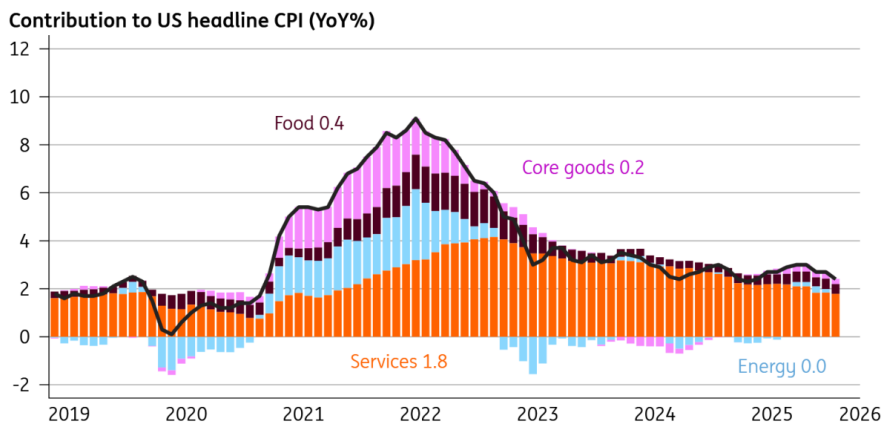
US inflation details offer room for deeper Fed rate cuts

Absent a 6.5% jump in airfares, inflation pressures look remarkably benign. With core goods prices not changing on the month, it looks as though tariff costs continue to be absorbed by corporates



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

January US consumer price inflation was marginally lower than expected with headline CPI up 0.2% month-on-month (consensus 0.3%) while core (ex food & energy) came in as predicted at 0.3% month-on-month (0.295% to 3dp). This leaves the year-on-year rates at 2.4% for headline and 2.5% for core, a four-year low, versus 2.7% and 2.6%, respectively in December. Energy prices fell 1.5% MoM while used vehicle prices dropped 1.8%. Virtually all other components were very well-behaved with housing costs rising just 0.2%.



Source: Macrobond, ING

The fact that goods prices, excluding food and energy, were unchanged on the month reinforces the narrative that tariffs are not proving inflationary, although there were decent price increases in some of the furniture and appliance categories. That said, import prices aren't falling and corporates are still paying billions more in tariffs each month versus 12 months ago. Consequently, we are reluctant to rule out some lingering price pressures, particularly with recent trade data suggesting that the pre-tariff import inventory build has been exhausted, and trade patterns are normalising.

The one true "hot spot" was airline fares, which rose 6.5% MoM. As such, there is a fair chance we get an even better core PCE deflator print next Friday (probably a 0.2%) given airfares are derived from the PPI numbers rather than the CPI numbers for that inflation metric. Remember that this happens to be the Fed's favoured inflation measure.

Markets have reacted dovishly, with 63bp of Fed cuts now priced versus 57bp ahead of time. Our view remains two rate cuts this year, in June and September, but with the risk that they do more given the cooling jobs story and increasingly benign inflation backdrop.

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