

## US: Inflation gives the Fed room to act

US consumer price inflation undershot expectations in September. With the growth outlook deteriorating the Fed has the flexibility to offer more “insurance” rate cuts



The Great Mall, San Francisco

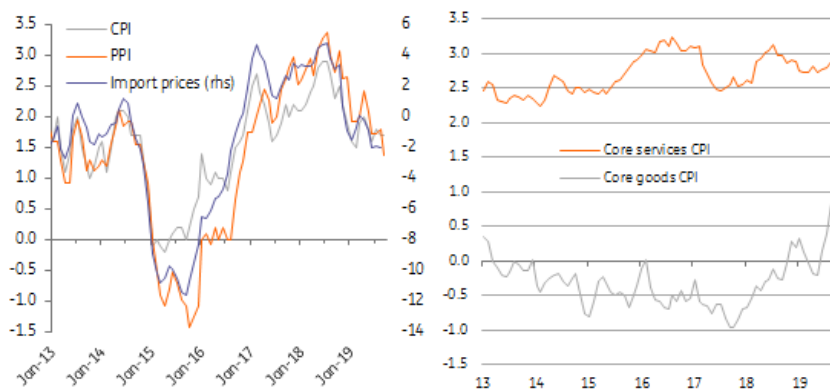
### Inflation concerns ease

US headline inflation was flat on the month versus expectations of a 0.1% month on month gain, which leaves the annual rate of inflation at 1.7%.

Meanwhile core inflation, which strips out volatile food and energy products and services, also undershot. It rose 0.1%MoM - the weakest rise for four months, leaving the annual rate of core CPI at 2.4%. This is important because there had been some concern that inflation pressures were starting to build following three consecutive 0.3%MoM increases. If the pick-up had continued it could have been perceived as a constraint on potential future Fed stimulus.

Looking at the details energy was a drag given the declines in gasoline prices, but there was also a big fall in used car prices (-1.6%MoM) and apparel prices fell 0.4% - the first decline since April. Medical care costs also showed a slower rate of inflation, but the shelter component remains firm, rising 0.3%.

## Tariff hikes felt in goods prices, but pipeline price pressures look to be easing

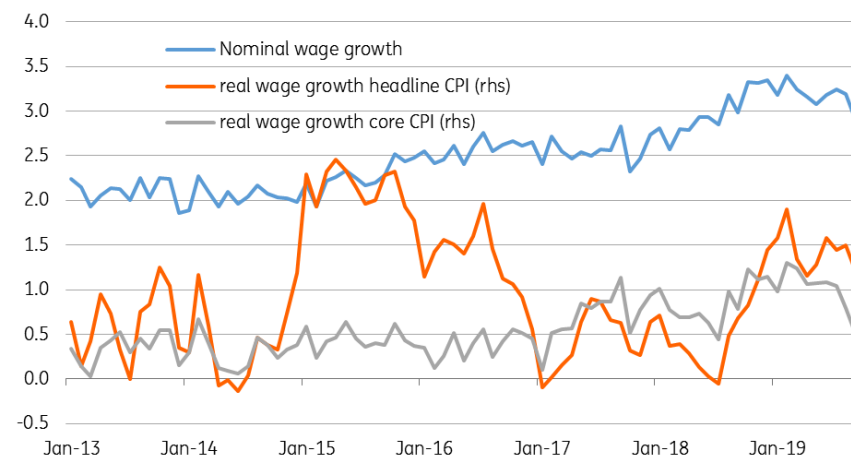


Source: Macrobond, ING

### A focus on growth

There continues to be evidence to suggest that tariff hikes are putting upward pressure on consumer prices, given the marked pick-up in goods price inflation in recent months. However, inflation is a lagging indicator and service sector inflation doesn't show a broader threat. With PPI and wage growth slowing we may already be seeing a moderation in pipeline price pressures that results in the Fed retaining a relaxed attitude to inflation, especially given the weakness in forward-looking activity survey such as NFIB and ISM. Moreover, with real wage growth softening the outlook for consumer spending may also be a little less rosy.

### Real wage growth no longer accelerating



Source: Macrobond, ING

### Between now and October 30

Looking at the data flow between now and the October 30 FOMC meeting, we have to say the odds of a third rate cut from the Fed are likely to increase.

Next week's retail sales will have positives from autos, but gasoline will be a drag and chain store sales have been softer. Industrial production will fall, led by manufacturing, given

employment in the sector fell and the ISM production component is firmly in the contraction territory. Housing data may be supported by falling mortgage rates, but the declines in consumer confidence suggest this may not last.

Other than that it is durable goods orders, which is already pointing to a contraction in investment spending in Q4 and then we have 3Q GDP the day of the Fed meeting – we are forecasting 2% growth with the Atlanta Fed Nowcast currently at 1.8%. The last Fed official scheduled to speak are Charles Evans and John Williams on October 17th, but by that point, we suspect a 25bp cut will be virtually certain in the market's mind versus the 76% (19bp) currently priced.

## Author

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto: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](http://www.ing.com).