

## US inflation much more likely to be transitory this time around

Gasoline price hikes prompted a jump in headline inflation, but core pressures were more benign than feared. We have much greater confidence that inflation will be transitory this time around, given the lack of demand impetus and weaker corporate pricing power versus 2022



US CPI for March rose on higher gasoline prices, but we do think higher inflation will be transitory

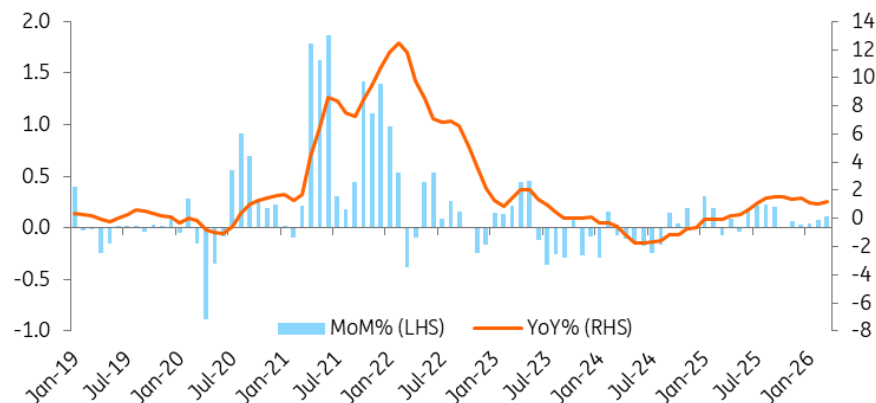
### Gasoline prompts an inflation jump, but core pressures were softer than feared

US headline CPI showed prices rising 0.9% month-on-month in March, as expected by the market, with a 21.2% MoM jump in gasoline prices contributing the bulk of upside impetus. Airline fares rose 2.7% MoM and apparel prices rose 1%. However, excluding food and energy, inflation was softer than feared, rising only 0.2% MoM/2.6% YoY versus expectations of a 0.3%/2.7% outcome. This was thanks largely to a 0.4% drop in used car prices, a 0.2% decline in medical care and a 0.4% decline in "other goods & services". Housing costs, the single biggest component by weight, rose 0.3%.

The economy has handled tariffs well, with limited goods price inflation. Core goods prices (ex-food

and energy), remain benign, rising just 1.2% year-on-year. Instead, the tariff cost is largely being borne by the US corporate sector – next week’s import prices will show another monthly rise, indicating foreign producers are not “paying” the tariffs.

## Core goods price inflation



Source: Macrobond, ING

## “Transitory” inflation far more likely this time

While the rise in energy costs will push the annual inflation rate even higher over the next few months, we don’t expect a repeat of 2021/22 when the Fed called inflation pressures “transitory” only to then hike rates 525bp as inflation got within touching distance of 10%.

The supply shock this time around is arguably far smaller, focused in the US’ case on gasoline and other fuel costs rather than *all goods* AND energy in the wake of pandemic-dislocated global supply chains. More importantly, there isn’t the demand impetus this time around to generate broad and persistent inflation. 2022 saw 4.5mn jobs added, wage growth touching 6%, significant pent-up demand, record savings levels and stimulus checks. This time we have a much cooler jobs market with wage growth closer to 3%, weaker confidence and flat-lining real household disposable income.

## Rising fuel costs likely to be demand destructive

Fuel price hikes are more likely to be demand destructive, via reduced discretionary spending power. This point was underlined by yesterday’s personal income and spending report, which showed real household disposable incomes were flatlining before the Middle East conflict. We are likely to see this turning negative in coming months. Furthermore, if we see a successful outcome for the US-Iran negotiations and the flow of oil and gas starts to trickle out before coming more of a proper flow through the second half of the year, lower energy costs could possibly drive inflation below 2% at some point next year. As such, we still think interest rate cuts are more likely than hikes, especially given the Fed’s dual mandate (price stability AND Maximum employment).

What would change our Fed view? If inflation expectations were to start rising and wage demands pick up, but right now both market and consumer long-term inflation expectations appear anchored and there continues to be more unemployed Americans than there are job vacancies – remember back in 2022 there were two job vacancies to every unemployed American. This highlights how the demand-supply balance has shifted within the jobs market and explains why we think second-round price effects will be far more muted this time relative to the post-pandemic

inflation shock.

## 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).