

US inflation relief keeps the door open to a September rate cut

The Federal Reserve's favoured inflation measure rose 0.2% MoM. That's what we need to see to soothe the Fed's inflation worries, but one is not enough. We need a series of 0.2% readings between now and September, with further slack in the jobs market and more evidence of a cooling consumer spending story. All certainly possible, but by no means guaranteed



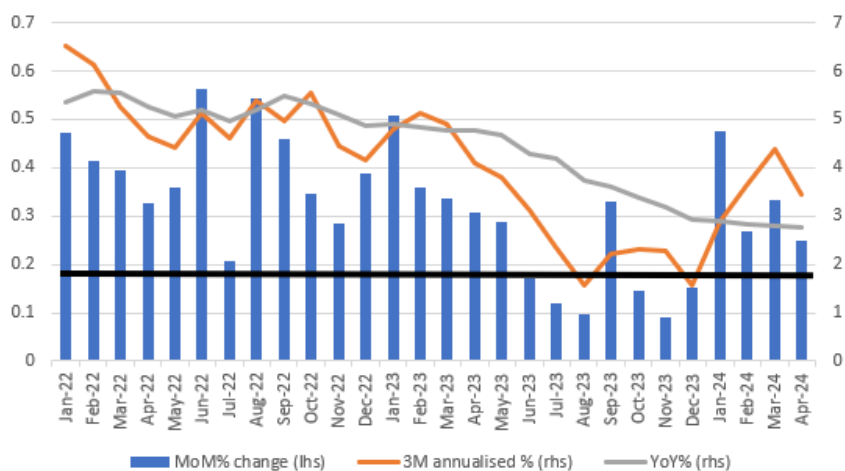
The Fed's favoured measure of inflation came in at 0.2% month-on-month

Cooling inflation helps the case for a September rate cut

So the Federal Reserve's preferred measure of inflation, the core personal consumer expenditure deflator, has come in at 0.2% month-on-month - the consensus had been swinging between 0.2% and 0.3% all week largely because based on the inputs from the PPI and CPI reports, the general sense was that it would come in at somewhere between 0.22 and 0.28% to two decimal places. In the end, it came in at 0.249% - so just a tiny fraction away from a 0.3% print - we need to see it consistently hit 0.17% month-on-month to bring inflation down to 2% year-on-year, so it does remain too hot, but the momentum is encouraging after some early 2024 disappointment. Overall it is modestly supportive of a September rate cut, but we need to see at least two more 0.2% prints between now and then, further evidence of cooling consumer spending and the unemployment

rate moving higher to perhaps the 4.2% region. All possible, but not guaranteed.

Core PCE deflator MoM, YoY and 3M annualised % change

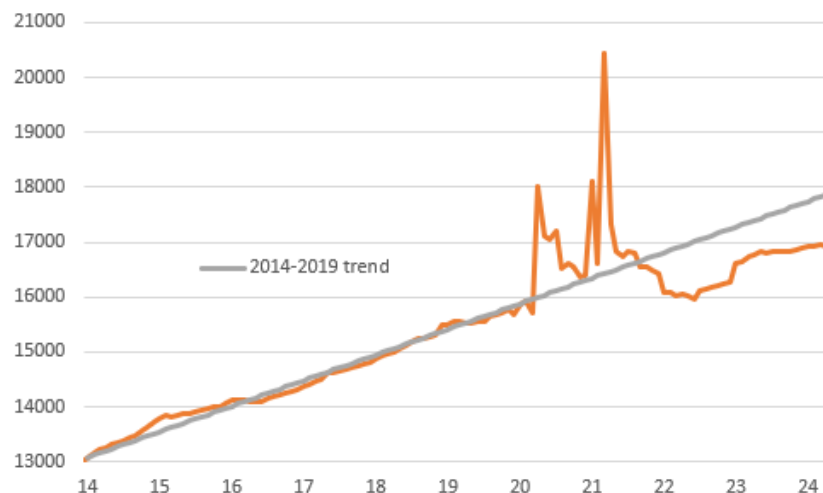


Source: Macrobond, ING

Spending surprisingly falls, income is weak

Elsewhere, the report is soft with real consumer spending falling 0.1% MoM rather than rising 0.1% as expected, setting us up for a potentially subdued 2Q consumer spending contribution to GDP. Real household disposable incomes also fell for the second time in three months. As the chart below shows, it has barely moved over the past year and consequently has not been the key driver of consumer spending strength. Instead, we put that down to the run down of pandemic-era accrued savings and consumer credit.

Real household disposable income \$bn



Source: Macrobond, ING

Remember, too, that the top 20% of US households by income spend the same amount of money

as the bottom 60% of households by income. The top 20% are doing very well with good, high-paying jobs, tending to own their own home (largely with low long-term mortgage rates) and can make 5% in money market funds while feeling the benefits of higher stock and home prices. The bottom 60% are feeling more stress with far less wealth exposure. They are more likely to rent and are more likely to have exhausted pandemic-era-accrued savings.

With consumer loan borrowing costs at multi-decade highs, the financial pressure many households are facing is showing up in rising delinquencies. The key question for the spending and growth in general is how long that top 20% can keep offsetting intensifying stresses faced by the bottom 60%. We see the story moving in the direction of weaker spending as we head through the rest of the year. Coupled with our inflation and cooling jobs market view, this feeds through into our view of a September Federal Reserve interest rate cut with the policy rate ending the year at 4.75%.

Author

James Knightley

Chief International Economist

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>.