

# US inflation slowdown has much more to go

US consumer price inflation slowed more than expected in October. Higher borrowing costs will increasingly weigh on activity and corporate pricing power while slowing housing rents will be the main driver of disinflation over the next two quarters. With 2% inflation looking possible by next summer the pricing of rate cuts will intensify

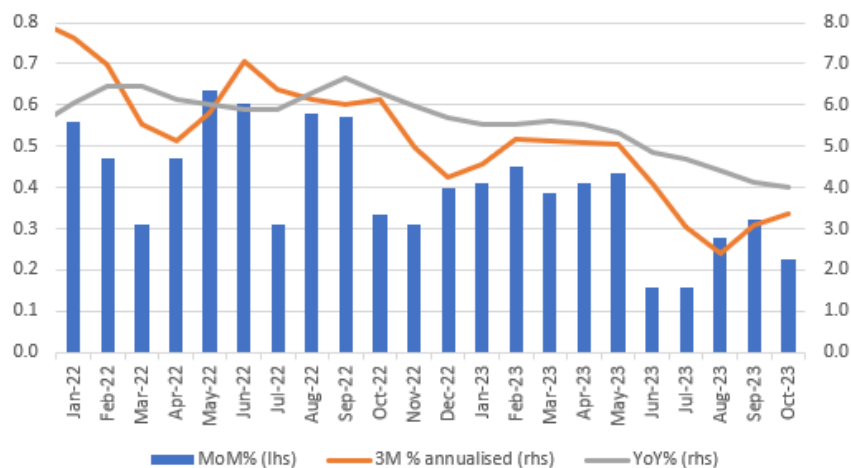


US October CPI was lower than expected and inflation could hit 2% by mid-2024

## Inflation pressures are subsiding

US October CPI has undershot market expectations for both headline and core inflation. The headline rate is 0% month-on-month/3.2% year-on-year versus consensus predictions of 0.1%/3.3% while core (ex-food and energy) is 0.2%/4.0% versus predictions of 0.3%/4.1%. The biggest component, owners' equivalent rent, cooled to 0.4% MoM from 0.6% MoM, but we are hopeful of much more to come. Energy fell 2.5%, led by a 5% MoM drop in gasoline while both used and new car prices fell (-0.1% and -0.8%, respectively) and airline fares fell 0.9% with hotel prices dropping 2.9%. The big uncertainty ahead of time was medical care costs and changes to methodology and history, but it doesn't appear to have been as big a story as feared, with prices up 0.3% MoM, though still down -0.8% YoY.

## CPI ex food and energy MoM, 3M annualised & YoY%

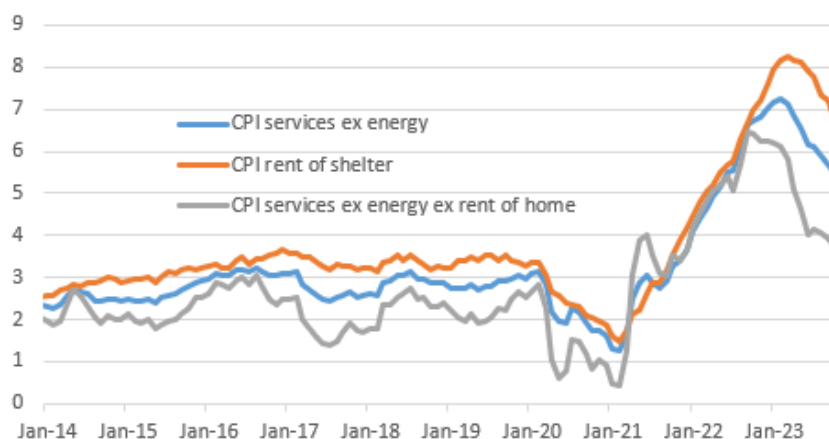


Source: Macrobond, ING

## Supercore progress should please the Fed

The so-called “supercore” measure of inflation – services excluding energy and housing costs – which the Fed keeps a close eye on due to wages and labour market tightness having a large influence, came in at a pretty benign 0.2% MoM rate, pulling the annual rate down to 3.75%. The Federal Reserve has got to be pretty happy with this and unsurprisingly, it has reinforced market expectations that the policy rate has peaked. Just 1.5bp of tightening is now priced by the January 2024 FOMC meeting with more than 90bp of rate cuts now anticipated by the end of next year.

## Supercore inflation is making progress



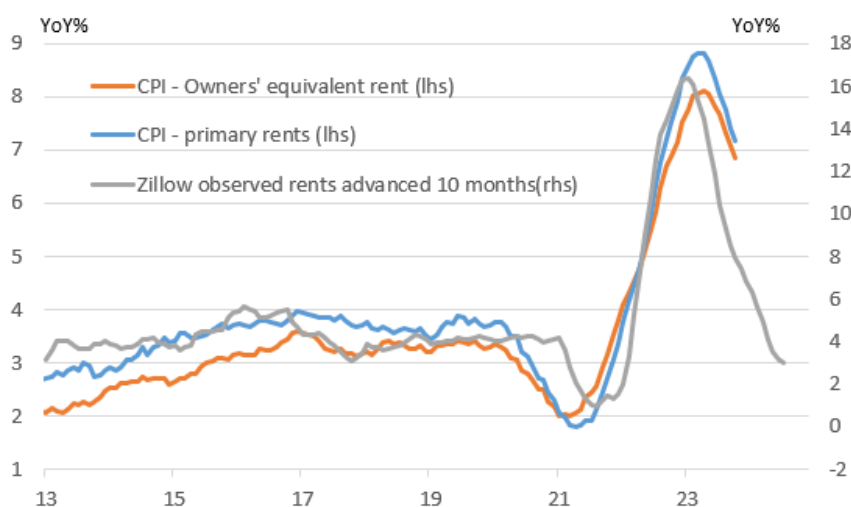
Source: Macrobond, ING

## Housing and vehicles to prompt further disinflation

Housing rents should slow a lot further based on observed rents. If the relationship holds between observed rents and the CPI housing components, the one-third weighting housing has in the headline inflation basket and 41.8% weighting for the core rate will subtract around 1.3 percentage points from headline inflation and 1.7ppt from core annual inflation rates.

Higher credit card and car loan borrowing costs, student loan repayments and very low housing transaction numbers in an environment of weak real household disposable incomes will continue to slow consumer spending activity. Big ticket items, such as vehicles, look set to see ongoing downward pricing pressure while slower economic growth should restrict corporate pricing power more broadly in the economy. Fed Chair Jerome Powell recently acknowledged that “given the fast pace of the tightening, there may still be meaningful tightening in the pipeline”. This will only intensify the disinflationary pressures that are building in an economy that is showing some signs of cooling. We forecast headline inflation to be in a 2-2.5% range from April onwards with core CPI testing 2% in the second quarter of 2024.

## Housing slowdown will increasingly depress core inflation



Source: Macrobond, ING

## Scope for significant Fed policy easing in 2024

With growth concerns likely to increase over the same period, this should give the Federal Reserve the flexibility to respond with interest rate cuts. We wouldn't necessarily describe it as stimulus but more an attempt to move monetary policy to a more neutral footing, with the Fed funds rate expected to end 2024 at 4% versus the consensus forecast and market pricing of 4.5%.

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