

## Expect three more Fed hikes this year as core inflation hits target

Having warned for some time that lower inflation will prove a temporary phenomenon, the Fed will breathe a small sigh of relief as core CPI moves back above target.



Source: iStockphoto

The big news from today's CPI data is that core inflation is now back above target at 2.1%. As has been telegraphed for quite some time, this is largely because a distortion related to cell phone data pricing has now dropped out the annual comparison.

Odd as it may sound, a quality adjustment conducted in March last year, to reflect the rise of unlimited mobile data contracts, resulted in a sharp one-off fall in communication costs. This quirk has been knocking 0.2-0.3ppt off most core inflation measures ever since.

Headline inflation picked up to 2.4% for the same reason, although was held back partly by an unseasonal fall in energy costs. And having skyrocketed since the start of the year, apparel costs fell slightly in March, helping to keep a lid on overall CPI.

With the weaker dollar likely to drive prices higher over coming months (particularly as

firms have the pricing power to pass these costs on in this strong economic environment), we think core inflation will continue edging higher this year. And with skill shortages intensifying in the jobs market, we'd expect wage growth to gradually rise too.

We think this makes it all the more likely that the Fed will hike three more times this year, although policymakers will also be watching closely to see how the recent trade escalations play out over the next few weeks.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@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>.