

Key US core inflation measure pushes higher

Markets remain sceptical about the Fed's hawkish signals, but rising core inflation is one of the reasons why we think investors may be underestimating the number of 2018 rate hikes



Source: Federal Reserve

1.4% Core PCE inflation (YoY%)

After a particularly disappointing year for inflation, a pick-up in core PCE (the Fed's preferred measure of prices) is another indication that things could be starting to get back on track. At 1.4%, this is still clearly much lower than policymakers would like, but we agree with the Fed's assertion that much of the recent slowdown is down to transitory factors. Wireless internet pricing, which is

currently chopping around 0.2ppts off core inflation, is a good example.

We're also seeing evidence of building pipeline pressures, and recent strong growth and the tight jobs market should continue to put pressure on wages. We expect hourly earnings growth to rebound next week following the recent hurricane distortions.

This should help cement expectations for a hike in December, but with little over one rate rise priced in for 2018, we feel markets may be underestimating the Fed's plans. Alongside rising inflation, we're looking for growth of around 3% next year. Throw in the hawkish rotation of regional Fed voters, which will see two dovish voters (Kashkari and Evans) replaced with two hawks (Williams and Mester), and the fact policymakers are paying increasingly close attention to rich asset prices, and we think the Fed will hike rates three times next year.

Read more about voter changes on the Fed and our outlook for rate hikes [here](#)

Author

James Smith

Developed Markets Economist, UK

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 www.ing.com.