# 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

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