

Snap | 28 May 2026

UNITED STATES

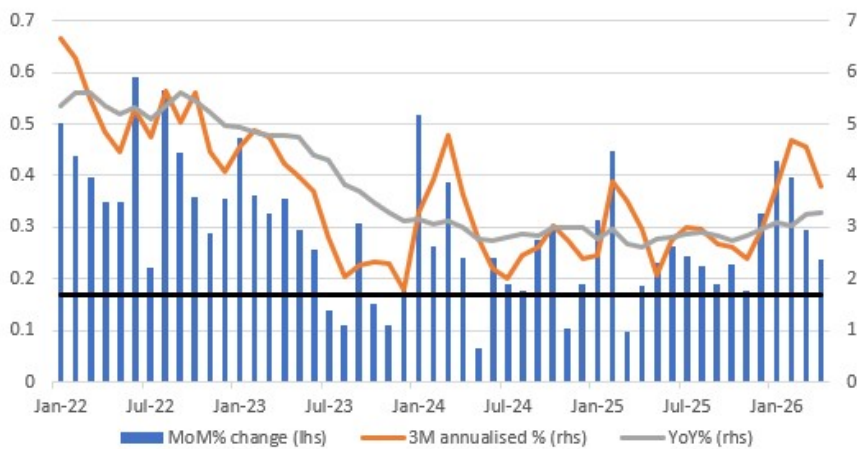
Softer US inflation, but the energy squeeze on spending power is becoming obvious

The Federal Reserve's favoured inflation measure was not as hot as feared, but that will do little to deter policymakers from their increasingly hawkish bias. Nonetheless, consumer spending power is coming under increasing pressure with rising energy costs forcing households to save less to maintain lifestyles



We've had quite a lot of US data today. The core PCE deflator (the Federal Reserve's favoured inflation measure) was better than expected, rising 0.2% month-on-month versus the 0.3% consensus forecast. Nonetheless, it continues to track above the 0.17% MoM run rate required to return annual inflation to the 2% target. The chart below shows that it was March 2025 when we last recorded a MoM reading below 0.17% – hence why the Fed is unlikely to cut rates again anytime soon and will likely retain a hawkish bias over the summer months, until policymakers are confident that the energy surge has passed and will start to reverse. But that requires a deal to re-open the Strait of Hormuz.

Core PCE deflator metrics (MoM%, 3M annualised & YoY%)

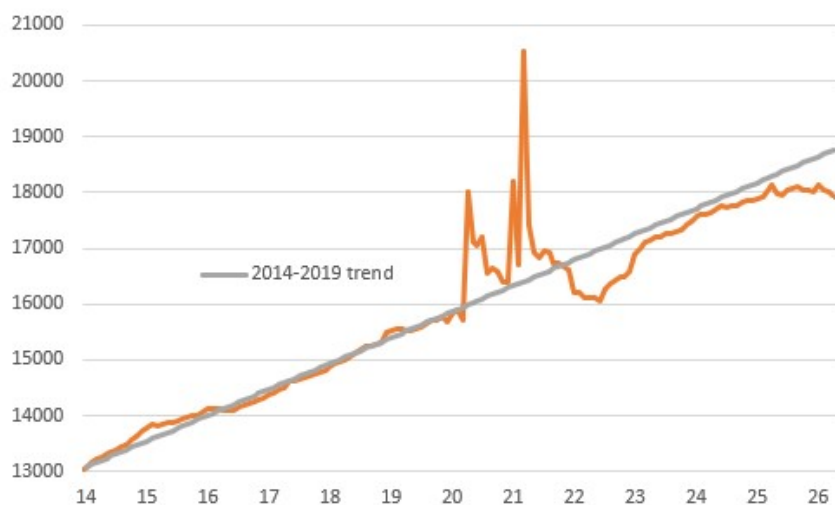


Source: Macrobond, ING

Meanwhile, 1Q GDP was revised lower, from 2% down to 1.6%, due to a combination of softer than previously thought consumer spending (1.4% versus 1.6% initially reported) and a bigger drag from inventories. The larger problem was the monthly personal income and spending data tied to this. Real household spending rose only 0.1% MoM in April, suggesting a soft start to 2Q activity – remember that 70% of the US economy is consumer spending and indicates that higher gasoline prices are not only a problem for inflation, but activity too. It is eating into spending power, with real household disposable incomes having fallen for three months in a row, leaving them well below where the pre-Covid trend would suggest.

The chart below shows RHDl is at its lowest level since February 2025. This is the primary driver of consumer spending power – otherwise you need to start selling assets or save less in order to generate spending growth. And guess what has happened – the household saving ratio has dropped to just 2.6% from 3.2% in March and is well below the 6% long run average. This is something that needs to be closely watched and will only reinforce the K-shaped narrative of higher income households continuing to spend, boosted by wealth gains, while lower and middle income households come under increasing financial pressure.

Real Household Disposable Income (2017 \$bn)



Source: Macrobond, ING

Rounding out the numbers, durable orders got a huge lift from strong Boeing aircraft orders (136 jets in April versus 33 in March), but the key metric to focus on is non-defense capital goods orders ex aircraft, due to the strong relationship with business capex. These orders fell 1.1% versus expectations of a 0.4% rise, although the forecasts had looked overly optimistic given the tech-led 3.9% MoM surge in March. Finally, initial jobless claims came in at 215k with continuing claims at 1786k, broadly in line with expectations.

The combination of softer inflation and weaker growth has seen a muted reaction, with Treasury yields 3-4bp lower across the curve, but Middle East headlines continue to drive the narrative with the data taking a back seat at the moment.

Author

James Knightley

Chief International Economist, US

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,

THINK economic and financial analysis

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.