

US corporate pricing power set to delay inflation's decline

US small business optimism held steady in April after three consecutive falls. Nonetheless, businesses retain the ability to pass higher costs onto their customers and this will keep inflation sticky. Ongoing supply chain issues and rising fuel costs mean 2% inflation is a distant prospect



Business sentiment holds steady, but firms still want to hire

The recent US data has been mixed and that has helped to fuel fears that the economy could experience a marked slowdown, especially with the Federal Reserve firmly focused on inflation and hiking interest rates. Dollar strength is acting as a further headwind to growth by making US exports less price competitive in what is already a challenging external demand environment for companies.

In this regard this morning's National Federation of Independent Business survey for April was marginally better than expected at the headline level with optimism holding steady versus expectations of a fourth consecutive monthly drop. Nonetheless it is still the weakest level since April 2020 in the immediate aftermath of the pandemic striking. The details show a slight improvement in the proportion of small businesses expecting higher sales, but there was a little

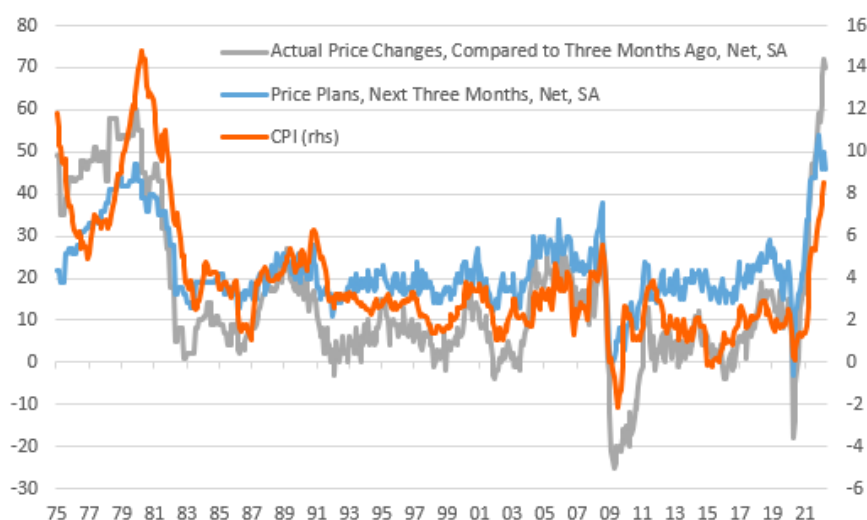
more pessimism on the outlook for the economy and whether it was a good time to expand.

Set against this softer environment, firms are still struggling with worker shortages and are desperate to hire. The NFIB released the labour components last Thursday, which a net 46% having raised worker compensation during the past 3 months and 27% expecting to do so further.

Inflation pressures show no sign of moderating

Looking to tomorrow's inflation data the NFIB report shows a net 70% of companies raised their selling prices in the past 3 month - down from last month's 72% balance, but this is still the second highest reading in the survey's 47-year history. Moreover, a net 46% of firms plan to raise their prices further over the next three months (down from 50%, but this is still the 6th highest reading in the survey's history). This reinforces the message the despite concerns about where the economy is heading, businesses continue to have pricing power and highlights the breadth of inflation pressures in the economy. The ability to raise prices is seen across all sectors and all sizes of businesses

NFIB price indicators show no sign of a turn in inflation



Source: Macrobond, ING

Inflation may be peaking, but 2% is a long way away

Tomorrow's CPI report will probably show that inflation has passed the peak, due largely to lower used car prices, but in the absence of major improvements in supply chains and geopolitical tensions, the descent to the 2% target will be very slow and may not be achieved until the very end of 2023. However, with national gasoline prices hitting a new all-time high yesterday that will come as little comfort to most households.

Author

James Knightley

Chief International Economist

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>.