

## US data backs the case for December hike

Inflation pressures are grinding higher and domestic activity is strong, suggesting the main barrier to a higher Fed funds rate is political rather than economic



Source: iStockphoto

**2.3%** US annual headline inflation rate

The US CPI report shows inflation pressures are rising, but this is primarily an energy story reflecting higher oil prices and refinery shutdowns relating to Hurricane Harvey. At the headline level, it rose 0.5% month on month/2.2% year on year (a tenth of a percentage point below what was expected). Energy prices rose 6.1%MoM, but excluding food and energy inflationary pressures were more muted, rising just 0.1%MoM/1.7%YoY (again a tenth of a percentage point below expectations).

In terms of core inflationary pressures, we are starting to see a bit more upward movement in the housing component, but medical care, apparel and education prices are very soft. Nonetheless,

with the economy growing quite strongly, the jobs market looking tight with wage growth starting to show some signs of life we would expect inflation rates to creep higher. Certainly, PPI is pushing upwards, and the lagged effects of the weaker dollar may also add some upside impetus.

---

*We expect the positive story to continue into next week with industrial production rebounding following storm disruption.*

---

September retail sales have also been released and are strong, rising 1.6%MoM with small upward revisions to August's data. Hurricane effects are visible – higher gasoline prices boosted gasoline station sales 5.8%MoM while the fact unit car sales rose to a 12 year high helped boost the value of sales with a 3.6%MoM rise.

Strength can also be seen in other components, and it is likely that there was some uplift as households start to replace lost items following the recent hurricanes. This has come on top of what is already a strong story for the consumer with employment, wages and confidence all looking healthy.

We expect the positive story to continue into next week with industrial production rebounding following storm disruption. After all, the ISM manufacturing index is at a 13-year-high, the dollar is making exports more competitive, and we see stronger global growth.

With overall economic growth looking good, inflation pressures gradually increasing and the Fed's worries about asset valuations and financial stability becoming more prominent in speeches a December rate hike is looking likely. The main risk remains the potential for an economically market destabilising government shutdown.

## Author

### James Knightley

Chief International Economist, US

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