

US economy expands 3%

The strong growth figure should keep the Fed on track for a December hike but its inflation, not growth, that is still the big headache for policymakers



Source: Shutterstock

The US economy is continuing to motor along at a fair pace. That's according to the first third-quarter growth estimate which has come in better than expected at 3%.

Straight away though, it's worth saying that much of this can be put down to a sizable inventory rebuild. That lifted growth by 0.7ppt and of course doesn't tell us an awful lot about the underlying economic trend, a task also complicated by the effect of the recent hurricanes.

But does any of this matter for the Fed? For a long time now, policymakers have seemed pretty comfortable about growth. Instead, inflation is still the far bigger conundrum

That said, it's clear the US economy enjoyed another quarter of solid consumer spending,

supported by the tight labour market. Business spending was also strong, backing-up what we've seen in recent business surveys (many of which are now at 10+ year highs).

But does any of this matter for the Fed? Well, for a long time now, policymakers have seemed pretty comfortable about growth. Instead, with core PCE having fallen back significantly over recent months, inflation is still a far bigger conundrum. The core view on the committee is still that much of the recent dip is down to temporary factors, and with pipeline pressures building given higher commodity prices and the weaker dollar, we also suspect inflation will recover over the next few months.

But until it does, markets will remain sceptical – although inflation is not the only reason why markets are wary of the Fed's rate hike ambitions. The Fed Chair saga, which looks set to reach its finale next week, is still a big uncertainty. Lingering concerns about another debt-ceiling showdown in December right around the time of the Fed's meeting, are also a risk. Until these hurdles are crossed markets will most likely continue to take the Fed dots with a certain pinch of salt.

Even with these headwinds though, we still think the Fed is on course to hike again in December and twice more in 2018

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 <http://www.ing.com>.