

US: Inflation could be a roller coaster ride

US inflation is benign and is likely to remain so over the next couple of months as increased Covid-19 containment measures weigh on activity. Longer term though, capacity constraints coupled with stronger demand could see price pressures mount in key areas



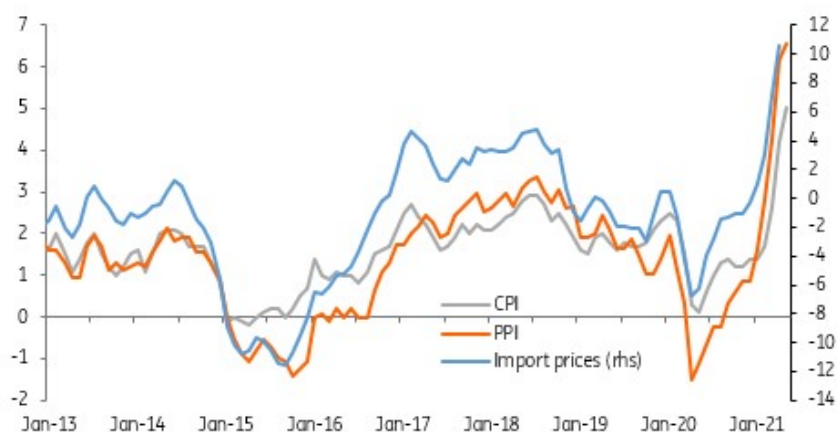
Price pressures kept at bay

US consumer price inflation came in a tenth of a percentage point below expectations for headline and two-tenths below for core (excluding food and energy). Headline CPI and core inflation were unchanged on the month, which leaves the YoY rates down at 1.2% and 1.6% respectively. Both are well short of the Federal Reserve's 2% target – remember too that the Fed is stating it won't consider rates until inflation is “on track to moderately exceed 2 percent for some time”.

Currently the Fed's own dot plot chart indicates just four of 17 FOMC members thinks interest rates will need to be increased before the end of 2023 and this is unlikely to change when the new forecasts are published on December 16th.

We believe that near-term price pressures are likely to remain subdued. The rising number of Covid-19 cases across the US means that containment measures are likely to be seen in more and more states over coming weeks. Some could even decide to implement European style lockdowns with bars restaurants and some retail being forced to close. Travel restrictions may also be re-imposed, which aside from having a positive impact on grocery pricing power, is going to be bad news for most other sectors.

US inflation measures



Source: Macrobond, ING

But inflation could rebound strongly in 2021

Looking to next year though we suspect inflation could surprise on the upside, especially in 2H21. The pandemic has led airlines to cut capacity, car hire firms to retrench & hotel capacity to be cut. When looked at together with the fact many bars and restaurants and other entertainment venues have gone out of business the supply side potential of the US economy has been cut back.

In 2021 we expect demand for most of these industries to surge back as a Covid vaccine unleashed pent up demand, with fiscal stimulus and the re-emergence of foreign tourists further boosting activity. The strength of the housing market is also likely to feed through into some of the shelter components so we could see inflation pick up markedly. In our view this could help to bring Federal Reserve interest rate hike expectations earlier than 2024 and lead to a more pronounced steepening of the yield curve.

Job strains persist despite jobless claims fall

Separately, initial jobless claims fell a little more than expected to 709k last week versus 731k consensus. The total number of people claiming unemployment benefits in all programs stands at 21.157mn. The equivalent number for the same point in 2019 was just 1.449mn. Unfortunately, if we see major containment measures kick in again soon after Thanksgiving those jobless claims numbers will climb once more.

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, 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.