Snap | 29 June 2018 United States

US inflation starting to climb

The 'Big 4' inflation measures that the Federal Reserve follows are all at or above the 2% target. With the economy set to grow by around 4% in 2Q18, the risks remain skewed towards a more aggressive pace of interest rate hikes in the United States



Source: iStockphoto

Today's release of the core personal consumer expenditure deflator shows the headline rate of inflation rising from 2% to 2.3% year on year while the core rate, which excludes the volatile food and energy components, rose to 2% from 1.8%. Both were above what the market was expecting (2% and 1.9% respectively) with both also showing the fastest rates of inflation for over six years.

This suggests that the next FOMC announcement (1 August) will need to see a more robust acknowledgement of the inflation pressures in the US economy. We expect all inflation measures to remain under upward pressure over the summer - particularly with oil prices on the rise again - with the more widely followed CPI measure likely to hit 3% in the next two to three months. Momentum is certainly to the upside given the strength of the economy and the tightness of a labour market that has the lowest rate of unemployment for 50 years.

Meanwhile, the Atlanta Federal Reserve Bank's Nowcast model, based on the recent data flow, currently suggests that real GDP growth could come in at around 4.5% for 2Q18. However, today's

Snap | 29 June 2018 1

report showed real consumer spending for May was weaker than hoped at 0% versus the 0.2% month on month consensus. As such, we think 4.5% is a stretch, but something close to 4% looks possible. With inflation rising at such a rate, nominal GDP growth will be in excess of 6%, suggesting to us that the market remains too cautious on the outlook for Federal Reserve interest rate hikes.

US inflation measures all on the rise (YoY%)



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.

Snap | 29 June 2018 2

 $Additional\ information\ is\ available\ on\ request.\ For\ more\ information\ about\ ING\ Group,\ please\ visit\ \underline{www.ing.com}.$

Snap | 29 June 2018 3