

## US inflation surge dampens Fed rate cut odds

US inflation came in well ahead of expectations, prompting the market to dramatically reprice the prospect of rate cuts. Potential tariffs add upside risk to inflation in coming quarters, but there are some encouraging signs that housing costs will slow meaningfully later in 2025 and keep the door open to the second half of the year cuts we are forecasting



**0.446%** core MoM% inflation

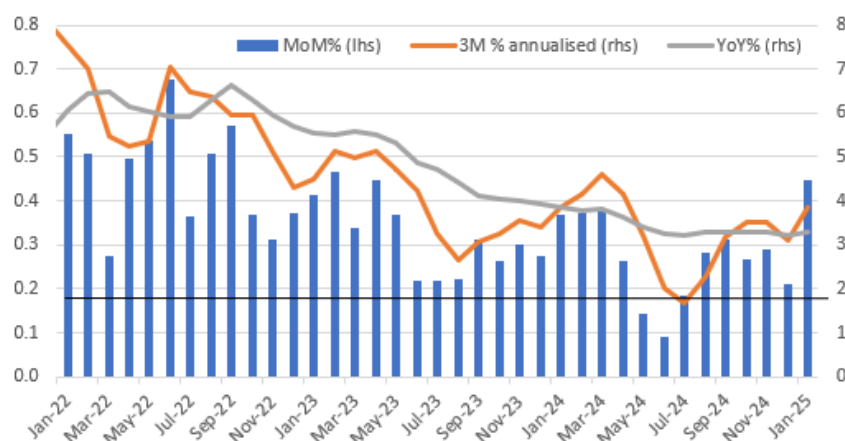
Higher than expected

### US inflation comes in far too hot

US headline inflation came in a lot hotter than expected in January, rising 0.5% month-on-

month versus the 0.3% consensus. Energy prices increased 1.1% MoM so stripping out that and the 0.3% MoM increase in food prices we get a core CPI reading of 0.4%, above the 0.3% market consensus. In fact, we weren't that far off a 0.5% print there with a 0.446% MoM outcome to 3 decimal places. The chart below shows that this is a clear deterioration from the recent trend and is the highest MoM core inflation print for two years. We need to average 0.17% MoM over time to get to the 2% year-on-year inflation target and today's number will ensure Fed Chair Powell treads a relatively hawkish line with the House Financial Services Committee.

## US core CPI metrics (% change)



Fonte: Macrobond, ING

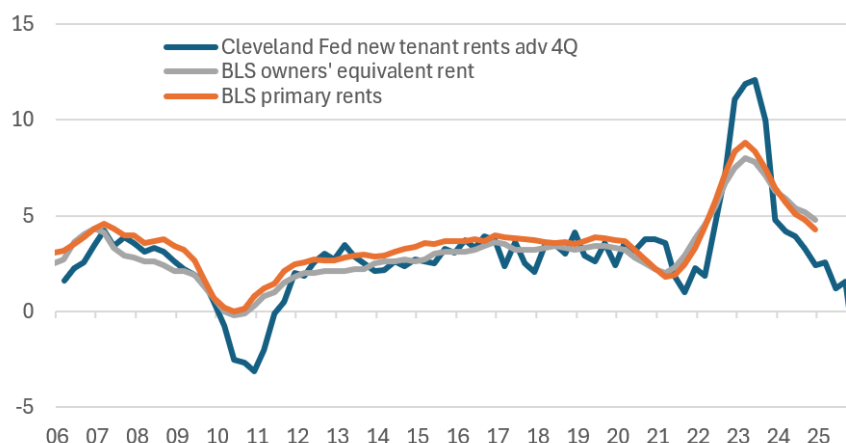
Ahead of time there was a focus on how updated seasonal adjustment factors may impact the profile, but in the end this is a very, very minor detail with no material story. So, looking at the details, the standout increases are from used cars and trucks (+2.2% MoM), motor insurance (+2.0% MoM), medical care commodities (+1.2% MoM) and airline fares (+1.2%). Other areas looked much better with apparel prices falling 1.4%, medical services coming in flat and new car prices also flat on the month. Nonetheless, there is no getting away from the fact that this is a hot report and with the sense that potential tariffs run upside risk for inflation the market is understandably of the view the Federal Reserve is going to find it challenging to justify rate cuts in the near future. Our view remains that September is the most likely point for the next move lower with markets only pricing 18bp of a 25bp cut at that meeting with only 26bp priced for the whole year.

## Housing costs could yet act as a counterweight to Trump's tariff threat

Longer dated Treasury yields have jumped on the back of this as the prospect of Fed rate cuts gets re-priced, but I'll throw in one piece of potential good news on inflation for later in the year. The Cleveland Fed have done quite a bit of work looking at US rent dynamics and the impact on CPI housing components – remember primary rents and owners equivalent rent have a 42.5% weighting within core CPI. They have produced a quarterly series measuring new tenancy agreement housing costs – so when you move apartment/home – and appears to have a good fourth quarter directional lead on the main Bureau of Labor Statistics rent measures. While doing little to argue against today's market move, it looks a potentially encouraging story for housing CPI to come in lower from late summer, which can act as an important counterweight to concerns

over tariffs.

## New tenant rent agreements point to a plunge in housing costs (YoY%)



Fonte: Macrobond, ING

### 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 [www.ing.com](http://www.ing.com).