

# Inflation rebounds in the United States

Is the FED putting the brakes on its rate cut plans?

## Eurozone inflation: data due next week

- ▶ **US inflation** is on the rise again. The figure for the end of October was 2.6%, due to a moderate fall in energy costs and a rise in housing prices, while core inflation remained at 3.3%.
- ▶ **The Fed:** According to Minneapolis Fed President Neel Kashkari, inflation should still reach its 2% target. It is still too early to say what will happen to interest rates. We will have to wait another month or six weeks for macroeconomic data before making any further decisions.
- ▶ **Luis de Guindos** believes that inflation could soon reach 2%, but expresses concerns about economic growth, held back by weak consumption and uncertainties linked to the results of the US election.
- ▶ **BoE:** UK wage growth remained stable at 4.8% at the end of September, in line with the expectations of the BoE, which recently cut interest rates to 4.75%. According to Huw Pill, the central bank's chief economist, wage growth has slowed, but remains rigid and difficult to reconcile with the inflation target.

## Number of the week

**2,6%**

Inflation in the US picked up again at the end of October. The level at the end of September was 2.4%.



**Luis de Guindos**

## Inflation in the US



Source: US Bureau of Labor Statistics 13/13/24

In October 2024, annual inflation in the US rose to 2.6%, compared with 2.4% in September, marking the first increase in 7 months. This increase was partly due to a more moderate fall in energy costs (-4.9% vs. -6.8%), while natural gas prices rose by 2%. Inflation in the housing sector remained stable, while it slowed for food and transport. On a monthly basis, the CPI rose by 0.2%, in line with forecasts, mainly due to the rise in housing prices (+0.4%). Annual core inflation held steady at 3.3%, as did monthly core inflation at 0.3%.

According to ECB Vice-President **Luis de Guindos**, "There is good news on inflation and not so good news on economic growth.

We expect services inflation to slow in the coming months and inflation to converge towards price stability, i.e. 2%".

The ECB has already cut rates 3 times and is expected to do so again next month. Mr de Guindos remained faithful to the central bank's usual line, namely that the course of monetary policy will depend on inflation.

He also stressed that the anticipated economic recovery is not taking place with the intensity we had expected. There has been a recovery in family incomes that has not been transferred to consumption.

The US elections have further clouded the outlook for the eurozone economy, as the return of Donald Trump could also lead to the introduction of tariffs by the US.

## Rate cuts in December: the ECB navigates between uncertainty and global risks

ECB member **Robert Holzmann** said that an interest rate cut in December was "possible, but by no means guaranteed".

In an interview, he said that "as things stand, the possibility exists, there is nothing to prevent it at the moment, but that does not mean that it will happen automatically".

This statement comes as the ECB has already cut rates three times since June, with a further cut expected in December.

**Martins Kazaks**, President of the Latvian Central Bank, supports a gradual reduction in rates: "The basic scenario

for the moment, and in my opinion the most appropriate, is to continue to lower rates little by little".

However, the economic outlook is complicated by the return of Donald Trump, whose protectionist agenda could lead to tariffs. Kazaks warns: "Tariffs won't be a good thing for Europe because our economy is export- and foreign-trade-oriented.

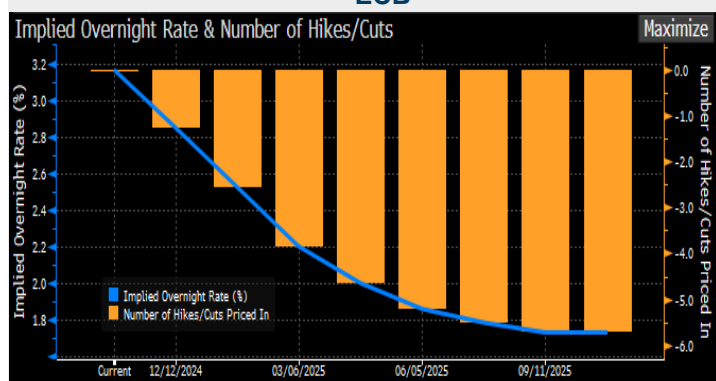
Inflation could be a bit higher, prices could go up because of tariffs and the economy could weaken because it will be harder for us to sell".



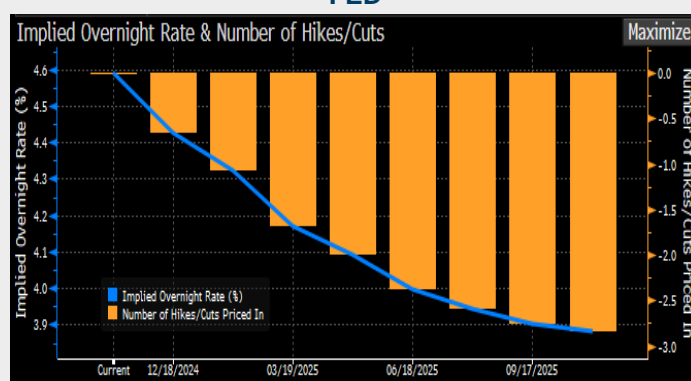
## Monetary policy will depend on inflation

Luis de Guindos, Vice-President ECB, 14 November 2024

ECB



FED



Source: Bloomberg 14/11/24

The financial markets seem convinced that key rates in the eurozone will be cut at the ECB's next monetary policy meeting, scheduled for 12 December.

Between now and June 2025, expectations are for a total of 5 rate cuts, which could push the €STR below 2%.

Contrary to expectations in recent weeks, we are seeing a slight acceleration in the pace of monetary policy easing, in line with the good results published on inflation in the eurozone.

Recent inflation data published in the United States came in above expectations, reducing expectations of a rate cut. The probability of a rate cut by the Fed at its next meeting in December is estimated at 75%. Forecasts for the coming months are for two rate cuts between now and May 2025: a third rate cut to date is not fully expected until October 2025.

Under this scenario, the terminal Fed Funds Rate would stabilise at around 3.8%.



Neel Kashkari, Federal Reserve

### Kashkari (FED): "Inflation heading in the right direction"

The Fed recently cut interest rates by a quarter of a point, its second consecutive cut, to strengthen the economy. **Neel Kashkari**, head of the Minneapolis Fed, stressed that inflation still needed to "come down to our 2% target".

He also referred to the uncertainties linked to the policies of the new administration, saying: "We have to wait and see what the rest of the government decides to do". Regarding interest rate developments, Kashkari also said that "there is still another month or six weeks of data to analyse before we make any decisions."

According to **Thomas Barkin**, President of the Federal Reserve Bank of Richmond, the US central bank would remain ready to intervene in the event of an upturn in inflation.

## UK: Wages still too high

UK wage growth stabilised at 4.8% in the three months to September, unchanged from the previous period, according to the Office for National Statistics.

This is the lowest rate of growth since the winter of 2021-22, and is in line with the expectations of the Bank of England (BoE), which recently cut rates to 4.75% and indicated that further cuts would be "gradual".

However, following the publication of these figures, sterling fell by 1.1% to \$1.273. **Huw Pill**, the BoE's chief economist, commented at a conference in London that although wage growth has come down, it remains "quite sticky".

He added that these wage levels are "difficult to reconcile with the UK's inflation target".

Pill also mentioned that there has been "substantial disinflation" in the UK economy, which has reduced the restriction on monetary policy, but said that "underlying inflationary pressures" remain.



Huw Pill, BoE Chief Economist, 12/11/2024

***"Wage growth remains fairly stable at high levels and at levels that are difficult to reconcile with the UK's inflation target."***

### News



▶ **Euro zone** | Publication of the the last monetary policy meeting of the ECB

▶ **Germany** | Annualised inflation at the end of the year October came in at 2%, in line with flash estimates (vs.1.6% to end September)

### Agenda



▶ **19 November** | Publication of rate inflation in the euro zone at the end of October

▶ **22 November** | Publication of rate inflation in the UK at the end of October

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