

ECONOMIC NEWS

United States: Annual Inflation Slowed in July

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HIGHLIGHTS

- ▶ The US consumer price index (CPI) was unchanged in July after rising 1.3% in June. This is the smallest monthly price change since early May 2020 at the height of the pandemic.
- ▶ Gasoline prices fell 7.6% in July, offsetting higher prices for food (+1.1%) and shelter (+0.5%).
- ▶ Core CPI, which strips out food and energy, rose 0.3%.
- ▶ The all items index increased 8.5% for the 12 months ending July, less than the 9.1% advance in June. Core CPI rose 5.9%, unchanged from last month.

COMMENTS

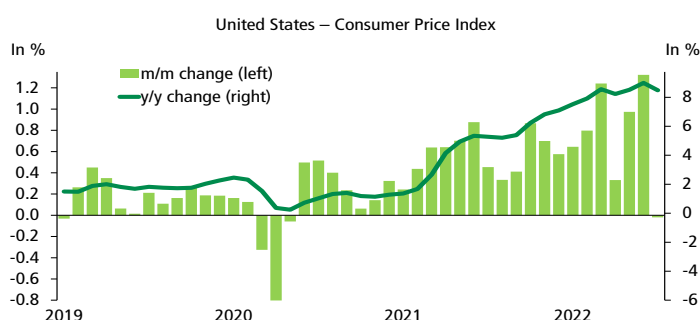
As expected, July's sharp decline in gasoline prices helped bring down the monthly CPI print. This in turn lowered year-over-year headline inflation from its June reading, which was a level not seen since November 1981. It's still early, but preliminary data for August points to another big drop in gas prices. If that holds, annual inflation should slow again in August.

In addition to prices at the pump, prices for a number of other components are also looking better. The index for all items less food and energy rose just 0.3% in July. The average over the last six months was 0.6%. We're starting to see some relief as price pressures seem to be easing on global markets. That said, rapidly rising interest rates in the United States and elsewhere are starting to cool demand.

IMPLICATIONS

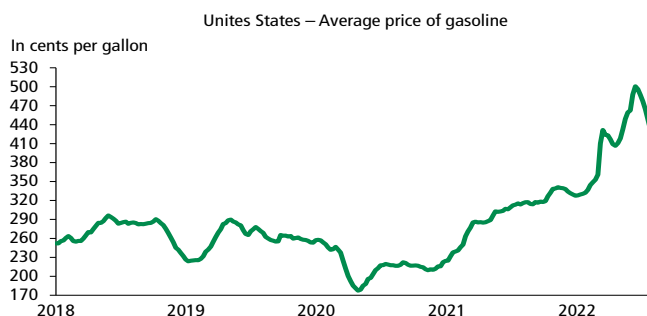
Slowing inflation is certainly good news, but it won't stop the Federal Reserve from continuing to raise interest rates in the months ahead. There's still a long way to go to bring inflation back to a more palatable level, and the risks remain to the upside.

GRAPH 1
Slower price gains in July brought down annual inflation



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 2
Gas prices fell in July



Sources: U.S. Energy Information Administration and Desjardins, Economic Studies