ECONOMIC NEWS

United States: Higher than Expected Core Inflation

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HIGHLIGHTS

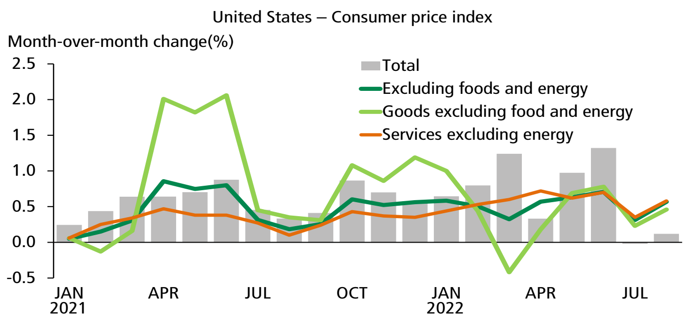
- The US consumer price index (CPI) rose 0.1% in August after being unchanged in July.
- Energy prices fell 5.0%, driven by a 10.6% drop in the gasoline index and a 5.9% dip in fuel oil. Food prices increased 0.8% on the month, although this was the smallest rise since December 2021.
- Core CPI, which strips out food and energy, came back strongly in August, rising 0.6% after July's momentary blip (+0.3%).
- The annual variation in the all items index slowed slightly once again from 8.5% to 8.3%. However, core inflation rose from 5.9% to 6.3%, its highest level since peaking in March.

COMMENTS

At first glance, a 0.1% increase in the all items index seems fairly modest and a sign that inflation in the United States is easing. However, this print came in above expectations, with the consensus forecasting that the all items index would edge down 0.1% and that 12-month inflation would fall to 8.1%. The core CPI—which rose twice as much as the 0.3% consensus forecast—was even more disappointing and brought an end to four consecutive months of declining core inflation.

It's difficult to blame one particular sector for the rise in the core CPI. Prices of several goods and services rose more sharply in August than in July. Excluding food and energy, goods prices increased 0.5% in August after edging up just 0.2% in July. The price of new vehicles rose 0.8%, while used cars and trucks fell 0.1%. Services got more expensive too. Services less energy services were up 0.6% in August after a smaller 0.4% gain in July. The shelter index continued to rise, increasing 0.7%, while transportation services and medical care services were both up more than last month.

GRAPH
July's slowdown in the core CPI was short-lived



Sources: Bureau of Labor Statistics and Desjardins Economic Studies

IMPLICATIONS

This print is clear evidence that inflationary pressure in the US economy remains acute. Although energy costs are down—a trend that is expected to continue in September—and other readings of supply chain pressure are easing, domestic factors that are causing prices to rise are still apparent and are delaying a significant drop in inflation. As a result, the Federal Reserve won't hesitate to continue its monetary tightening.

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