United States: Low Inflation Persists

HIGHLIGHTS
- The total consumer price index (CPI) rose by 0.1% in July.
- The cost of housing (+0.1%), health care (+0.3%), and food (+0.2%) rose during the month.
- However, energy prices declined slightly in July (-0.1%), as did motor vehicle prices (-0.5%).
- The annual rate of inflation increased from 1.6% to 1.7%.
- Excluding food and energy, the index rose 0.1% in July. The change over one year remained at 1.7%.

COMMENTS
Forecasters generally expected the total CPI to rise faster in July, however, there is no choice but to accept that the weakness observed over recent months remains steady. As a result, the change over three months fell once again into negative territory, to -0.18% (annualized), proof of a very low trend.

As is the case in many other industrialized nations, this weakness in prices is fairly widespread. Indeed, while the annual change in the total CPI rose to 1.7% in July, slightly more than 60% of this increase was due entirely to housing. This represents nearly double its weight within the entire CPI basket, which is another way of saying that the collective contribution of the other items is fairly small.

IMPLICATIONS
The slight increase in prices in recent months confirms that there is no urgency on the part of the Federal Reserve to announce a new key rate hike in September. With the job market still strong, we believe that another federal-fund increase of 25 basis points will be imposed in December. However, for this to happen, inflation will have to start climbing somewhat.

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