

ECONOMIC NEWS

United States: Inflation Is Not Flagging

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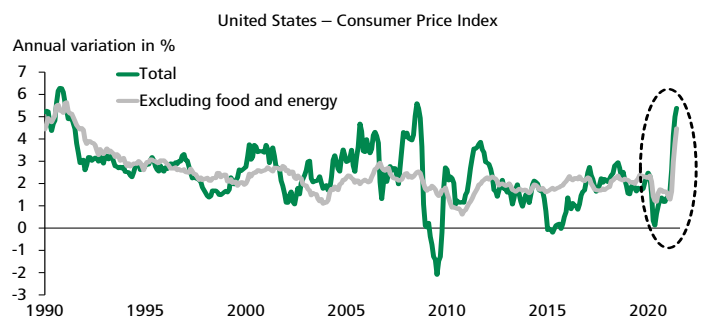
HIGHLIGHTS

- ▶ The U.S. consumer price index (CPI) rose 0.9% in June, after increases of 0.6% in May and 0.8% in April.
- ▶ Energy prices increased by 1.5% in June, after stagnating in May. Food prices edged up by 0.8% in June.
- ▶ Excluding food and energy, core CPI also increased by 0.9% in June, after gains of 0.7% in May and 0.9% in April.
- ▶ The annual change in total CPI is continuing its upward trend. It climbed from 5.0% in May to 5.4% in June, the highest since July 2008. Inflation excluding food and energy rose from 3.8% in May to 4.5%, the highest since November 1991.

COMMENTS

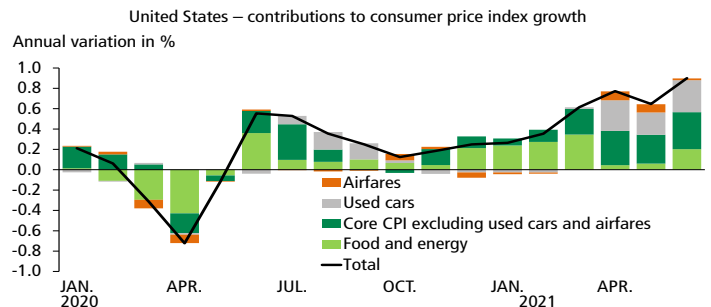
Price increases are significant in the United States. This is the first time since summer 1981 (when inflation hit 11.0%) that the monthly change in total CPI has exceeded 0.6% for four consecutive months. The situation is striking with regard to goods, which had tended to draw inflation downward in recent decades. The monthly change in the price of goods excluding food and energy was 2.2% in June, the highest since detailed data started to be published in 1957. Now it is services that are slowing the upsurge in inflation, with a gain that nonetheless hit 0.4% in June. The automobile sector continues to play an important role in the rising CPI. The prices of used cars and trucks rose 10.5% in June, after increases of 10.0% in April and 7.3% in May, with annual growth reaching 45.2% in June. Added to this are annual increases of 5.3% for new car prices and 5.2% for car and truck rental. The monthly increase in airfares was more modest in June (+2.7%) than in May (+7.0%) and April (+10.2%). An uptick has been noticed in the hotel industry, however (+7.9% in June).

GRAPH 1
Inflation Continues to Rise



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 2
Used cars still contributing significantly to consumer price increases



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

IMPLICATIONS

In June, inflation once again surpassed forecasts. Although some factors that we hope are temporary explain a large portion of the price increases, the situation is nevertheless worrisome. This should encourage the Federal Reserve leaders to send a stronger signal that the time to start normalizing monetary policy is approaching.