

ECONOMIC NEWS

United States: Inflation Holds Steady at a Very High Level

By Mathieu D'Anjou, CFA, Director and Deputy Chief Economist

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.5% in July, after gaining 0.9% in June and 0.6% in May.
- ▶ Energy prices rose 1.6% in July, after gaining 1.5% in June. Food prices edged up 0.7% in July.
- ▶ Excluding food and energy, core CPI increased by 0.3% in July, after gaining 0.9% in June and 0.7% in May.
- ▶ The annual variation in total CPI remained at 5.4% in July. Inflation excluding food and energy dipped from 4.5% in June to 4.3% in July.

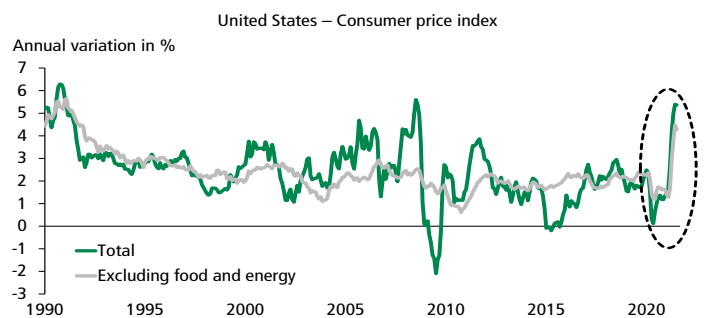
COMMENTS

In contrast to the surprising surges of recent months, July's inflation figures were very close to expectations. The spectacular June spikes of 0.9% for both the total index and the core index were followed by respective upticks of 0.5% and 0.3% in July. Increases like that are still very strong, however, since both those indexes have only edged up by slightly less than 0.2% per month on average since the beginning of the 2000s. The 6-month annualized CPI and core CPI variations have thus reached 7.8% and 6.8% respectively, something we have not seen since the 1980s.

The monthly growth of food and energy prices remained strong in July. The rapid increase in the price of new motor vehicles continued (+1.7%), but other prices in the transportation sector did not follow suit, slowing the growth of core inflation. After rising 7.3% in May and 10.5% in June, the price of used motor vehicles was nearly stable in July. Car and truck rental was down sharply for the month (-4.6%), as was vehicle insurance (-2.8%). Airfares also dipped slightly after several months of strong growth. Shelter prices were up 0.4%, in line with the recent trend, and hotel prices again rose sharply (+6.0%).

GRAPH

Inflation is still very high



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

IMPLICATIONS

After the surges of recent months, a certain moderation in U.S. prices is very welcome. However, it is essentially reflecting a pause for some skyrocketing prices. Beyond those temporary factors that should continue to moderate, more widespread inflationary pressures can be felt as almost all the major categories have gone up over 2% in the last year. The Federal Reserve will have to start normalizing its monetary policy to prevent inflation gaining a lasting foothold.