ECONOMIC NEWS

United States: Inflation Levels Off

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HIGHLIGHTS

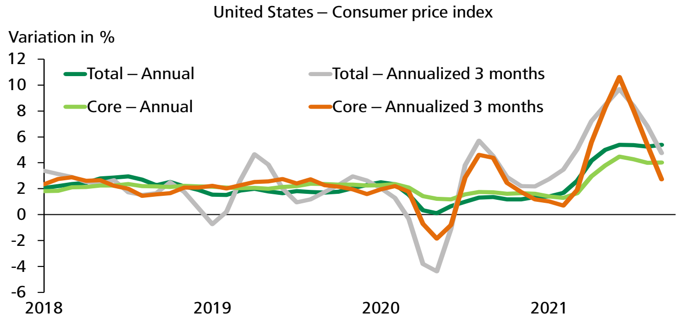
- The consumer price index (CPI) rose 0.4% in September after gaining 0.3% in August and 0.5% in July.
- Energy prices climbed 1.3% in September after gaining 2.0% in August. Food prices jumped 0.9% in September, the largest monthly uptick since April 2020.
- Excluding food and energy, core CPI edged up 0.2% in September, after gains of 0.1% in August and 0.3% in July.
- The annual variation in total CPI rose slightly from 5.3% to 5.4% in September. Core inflation was flat at 4.0%.

COMMENTS

September's CPI data is another sign that the very strong surge in inflation that started last winter is running out of steam. The recent monthly increases in the total CPI and the annual variation of 5.4% clearly remain worrisome, and other factors may combine to keep them high over the next few quarters, particularly wage pressures, food prices and raw material costs, including energy. However, the pace of acceleration is already not the same. Note that from January 2021 to last June, total inflation soared nearly fourfold from 1.6% to 5.4%. A plateau seems to have been reached since then. The effect on 3-month changes (at an annualized rate) is even more compelling. This growth rate was cut in half for the total index between June (9.7%) and September (4.7%) and is only a quarter (from 10.6% in June to 2.7% in September) for the core index.

This deceleration stems from an easing of the components that had driven the price indexes up significantly during the winter and spring. The auto industry in particular was adding 0.4 percentage points each months to the monthly change in the total CPI. This contribution has now become zero, as used vehicle prices have fallen 2.2% and car lease rates have dropped 18.8% in the past 2 months. We also note that airfares have fallen 18.3% over the past 2 months.

GRAPH
Inflation remains high, but 3-month changes in consumer prices have slowed significantly



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

That being said, despite the easing of some pressures, inflation is expected to remain high in the coming months. The comparison effects with last year (including gasoline prices, which are supported by a new surge in oil prices) should support the annual variation in the total CPI at around 5% by next spring. Core inflation is expected remain at around 4%.

IMPLICATIONS

The worst of the CPI surge is over, but inflation is expected to remain elevated in the near term. This should prompt the Federal Reserve to go ahead with its first reduction in securities purchases by the end of the year, despite relatively disappointing labour market readings.