

# US inflation has passed its peak

A rare pleasant surprise from the CPI report with headline inflation dropping to 8.5%YoY from 9.1% on lower fuel prices, airline fares, clothing and education costs. Ongoing falls in gasoline will mean the headline rate falls further in August, but core inflation is likely to be stickier due to labour costs and will keep the Fed firmly in tightening mode



US food prices continue to rise but there's better news elsewhere on inflation

8.5%

US inflation rate

July

Better than expected

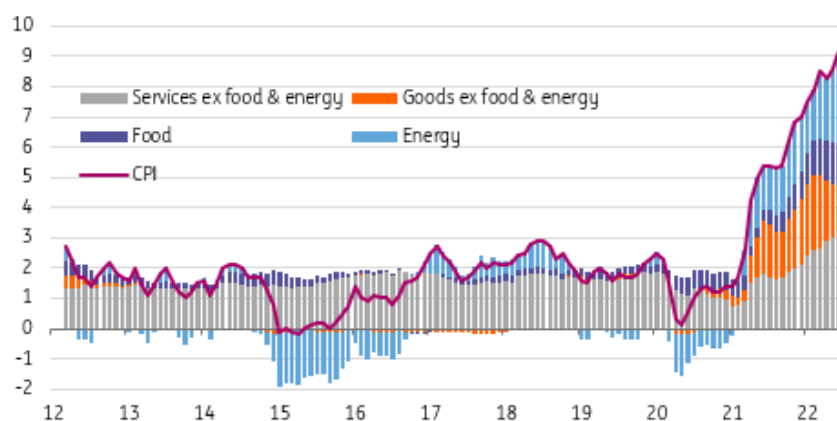
## US inflation slows more than expected

We don't often get pleasant surprises surrounding the US inflation data so July's numbers are something to be cherished. Both the headline and core (ex food & energy) rates reported monthly

increases that were 0.2pp lower than expected. Headline CPI was flat on the month (consensus 0.2%), resulting in the YoY rate dropping to 8.5% from 9.1% while the core rate rose "just" 0.3%MoM (consensus 0.5%). The Year-on-Year rate, therefore, stays at 5.9%.

Developments within core are primarily responsible for the surprise with the housing rental components within shelter posting more moderate increases than anticipated while airline fares fell 7.8%MoM and used cars fell 0.4%. Apparel prices dropped 0.1% with education and communication also experiencing a 0.2%MoM fall. Gasoline fell 7.1%, but bigger falls will occur next month. On the upside, food prices rose 1.1%MoM/10.5%YoY

## Contributions to annual CPI rate (YoY%)



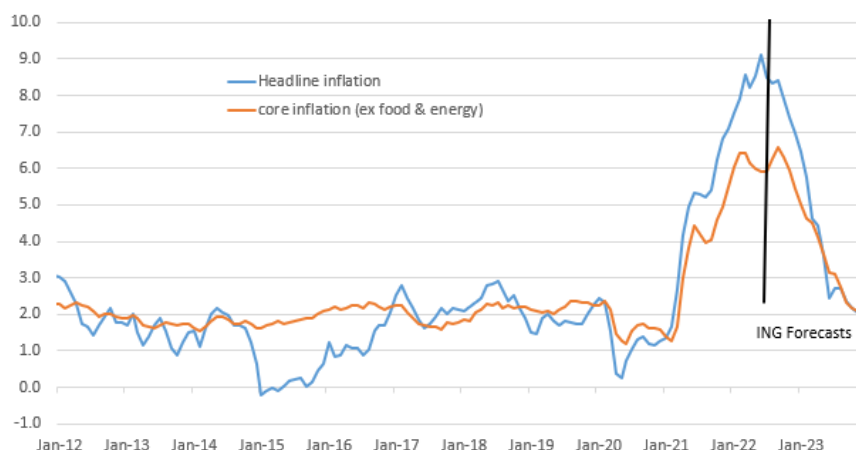
Source: Macrobond, ING

## Core inflation still subject to upside risks

Today's report should provide support to the notion that the US has now passed the peak for headline inflation with lower gasoline prices, down a dollar a gallon nationally on their June 13 peak, set to have a more substantial impact in the August inflation print. We are forecasting the YoY rate dropping to 8.3%.

However, core inflation remains on an upward trajectory due to rising housing rental costs and service sector inflation pressures. Wages are the biggest cost input for the service sector. The latest jobs report showed that they continue to push higher, but with productivity having fallen through the first half of the year, unit labour costs are surging. In an environment where decent demand means companies can pass higher costs onto consumers, we don't see core inflation peaking until around September/October time with the core rate up at around 6.5%YoY by then

## Headline & core inflation with ING forecasts



Source: Macrobond, ING

## Much more data to come ahead of September 21st Fed meeting

It is important to remember that there is another jobs report and another inflation report ahead of the September 21st FOMC meeting. But inflation remains far from target, the economy has added more than half a million jobs last month and third-quarter GDP is set to rebound based on consumer movement data. Add to all that a positive contribution from net trade and a less negative drag from inventories then the case for a third consecutive 75bp Federal Reserve rate hike in September remains strong.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.