

US inflation edges up but still below target

US inflation misses on the downside, but price pressures will build



Source: iStockphoto

1.7

US Consumer Price Inflation

Year-on-year

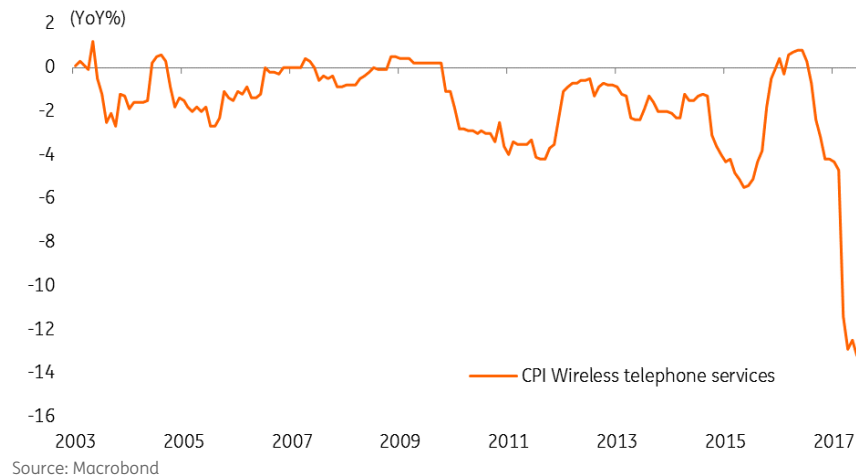
Worse than expected

US consumer price inflation for July has come in at 0.1%MoM/1.7%YoY for both headline and core (excluding food and energy). This was below the 0.2%MoM/1.8%YoY predicted by the market, but we (and probably a lot of other people) had suspected the lower figure would be the likely outcome following yesterday's softer than anticipated PPI report.

A December rate hike remains on the cards in our view.

The details again showing energy prices pushed the headline rate down with transportation services also seeing price falls while housing continues its very benign run, rising just 0.1%MoM. This is also due to lower fuel and utility prices. Meanwhile, the cell phone contracts price war continues and has subtracted 0.2 percentage points from the headline annual rate of inflation.

Cell phone price war knocked 0.2ppt off headline inflation



Inflation pressures are set to build

The Federal Reserve doves will seize on this subdued headline reading as further evidence backing the case for a period of stable interest rates. Nonetheless, today's outcome ends four consecutive months of deceleration, and we think further rises in inflation are likely in the months ahead.

The 10% fall in the dollar since the start of the year will help nudge up import costs while rising commodity prices will soon see a reversal in the energy component. With the economy adding jobs and some very nascent evidence of a pick-up in wage growth we still think inflation will be back above the 2% target before the end of the year.

As such a December rate hike remains on the cards in our view.

Author

James Knightley

Chief International Economist, US

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 www.ing.com.