

US Inflation hits new high

US headline inflation is within a whisker of 3%, while core inflation reaches its highest rate since 2008. Along with a strong labour market and solid economic growth, this should keep the Fed on track for two more hikes this year



The Great Mall, San Francisco

2.4%

US core CPI in July

Highest since 2008

Higher than expected

Friday's release of US consumer price inflation (CPI) came in at 2.9% YoY on the headline measure and 2.4% on the core measure excluding food and energy. Both were slightly stronger than consensus expectations; the headline figure was 2.9495, so within a fraction of a percentage point of being rounded up to 3%. The core measure of CPI is now increasing at the fastest rate since 2008.

Within the consumption basket, price growth is broad-based with most components increasing on the month. Apparel prices and medical costs were somewhat weaker than expected, but this was

offset by higher housing and education costs. Year-on-year energy inflation continues to rise rapidly due to the high oil price. But the peak impact from rising energy prices is likely to be behind us now as the oil price has stabilised over the past couple of months. Given that the oil price rose steadily in the second half of last year, the 'base effect' (essentially, the comparison to energy prices a year ago) will now start to pull down on energy inflation. That means the July figure may prove the peak in headline inflation this year.

But core inflation is likely to strengthen further, as wages are grinding higher (putting upwards pressure on costs). The administration's trade war with China could also contribute to higher consumer prices, as tariffs on US imports start to feed through to retail outlets over the second half of the year. Combined with strong momentum in the US economy -- Q2 growth reached 4.2% -- the Fed looks like it will stick to its current plan to deliver two more interest rate hikes this year.

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