

## US: Inflation reflects Covid unwind

Inflation has surprised on the upside, but we see this more as an unwinding of the strains caused by Covid-19 shutdowns rather than a signal there is a meaningful pick-up in medium-term price pressures

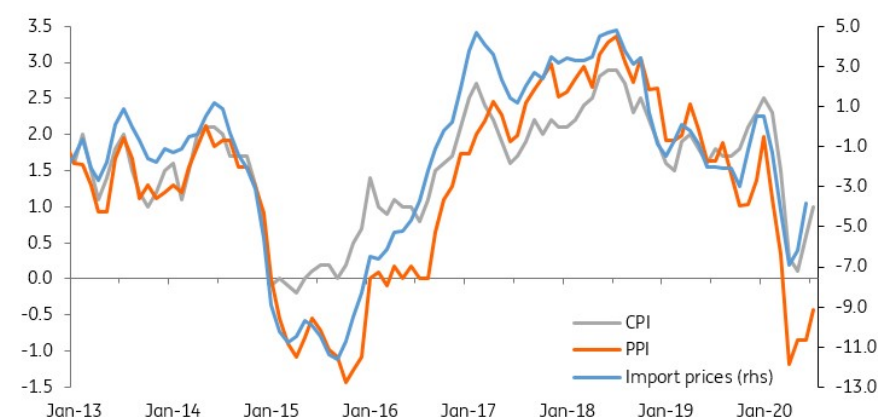


### Inflation surprises on the upside

US consumer price inflation came in higher than expected in July, posting 0.6% month-on-month gains for both headline and core CPI versus 0.3% and 0.2% respective consensus expectations. This leaves the respective year-on-year inflation rates at 1% and 1.6%.

After yesterday's firmer-than-anticipated PPI report there was going to be some upside threat, but the scale of the rise in the core measure is quite a surprise. However, we see this more as an unwinding of the strains caused by Covid-19 shutdowns rather than a signal there is a meaningful pick-up in medium-term price pressures.

## US inflation measures moving in tandem



Source: Macrobond, ING

## Near-term yield curve steepening to continue

For example, apparel rose another 1.1% after the aggressive discounting of April and May concluded when retailers were desperate for cash. Likewise, transport jumped 2.9% and lodging away from home rose 1.2% (hotels) as people start to move around the country more and firms have a bit more pricing power. Meanwhile gasoline rose 5.6% MoM, reflecting higher pump prices as a lagged response to the recovery in the oil price and car prices picked up 0.8% MoM.

With the US Treasury seeking to sell \$38bn of 10Y treasuries today and \$26bn of 30Y tomorrow, these higher inflation numbers and the recent softer tone to the US dollar supports our debt strategy team's view that we see more curve steepening in the near term. However, we are not fearful of a meaningful rise in inflation over the medium term.

## Little medium-term inflation threat

The US is a service sector orientated economy and so inflation is predominantly driven by service sector factors. The biggest input to service sector prices is labour and when you have more than 30 million people claiming unemployment benefits there is likely to be a glut for quite a while. This will keep wage pressure subdued, thus limiting the upside for service sector inflation.

We also have to remember that the economy is 10% smaller than it was in December so there is a huge output gap that will limit the upside for broader inflation pressures, even if the dollar weakening trend continues. Today's inflation figure is a corrective move, but in our view the threat of prolonged higher inflation is limited.

### 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 [www.ing.com](http://www.ing.com).