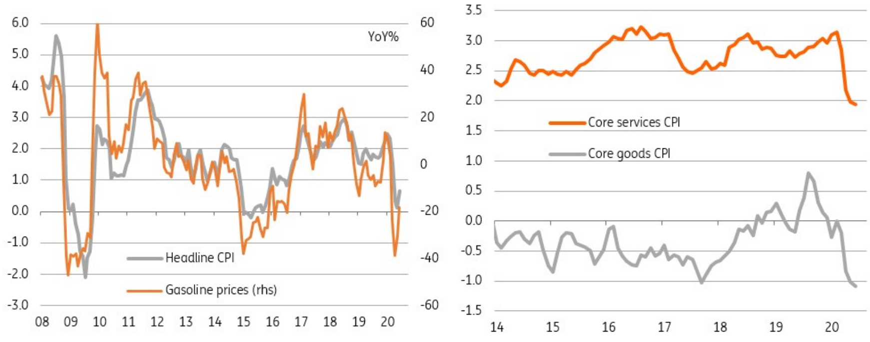
US: Inflation rises, but growth remains the only focus

US inflation was a touch stronger than expected, but reflects more a bounceback from extremely depressed price levels rather than signalling inflation is any sort of issue. With Covid containment measures being increasingly reinstated the focus remains on protecting activity and jobs, which means interest rates staying pinned to the floor

There was a modest upside surprise to headline US consumer price inflation at 0.6% month-on-month for June and the core at 0.2% MoM (both 0.1 percentage point above consensus). The annual rates were broadly as expected at 0.6% year-on-year for headline and 1.2% YoY for core.

This is the biggest MoM rise in headline inflation since 2012 with the main contributor being the 12.3% MoM increase in gasoline following huge plunges in recent months. Transportation costs rose 2.5% as more people started to take flights as states re-opened with accommodation away from home (hotels) also seeing a 1.2% gain for similar reasons. Tobacco (+1.1% MoM) and apparel (+1.7% MoM) were a bit more of a surprise – boys apparel rose 3.6% for some reason (versus 0.8% for women, 1.7% for girls and 1.5% for mens). All other components saw minor price moves.

Headline inflation driven higher by gasoline, but core inflation remains weak



Source: Macrobond, ING

Despite the slight upside surprise we would characterize this as a modest bounce from extremely depressed price levels rather than offering any real indication inflation pressures are about to build. After all, the economy remains far weaker than before the crisis with output around 11% lower than the end of 2019 and employment is still 15mn below the levels of February. This suggests a huge output gap with the US economy having significant scope to grow before any real inflation threat emerges.

Moreover, with an increasing number of Federal Reserve officials expressing concern over a loss of economic momentum as states reintroduce Covid-19 containment measures, they will continue to do what is necessary to keep credit flowing and interest rates pinned to the floor.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Disclaimer