

## US inflation softens in August

US inflation fell back slightly in August. While lower energy price inflation was largely expected, softer core prices are more surprising and suggest price pressures remain moderate despite a booming economy



The Great Mall, San Francisco

**2.2%** US core inflation in August

Lower than expected

US headline inflation for August was 2.7% (vs 2.9 in July, and the 2.8 forecast), while core inflation excluding energy and food was 2.2% (vs. 2.4 in July, and the 2.4% forecast). In both cases, this is a little weaker than we and the consensus forecast had expected. Lower energy prices are not all that surprising, given that base effects are starting to turn negative from August (the steady increase in oil prices in the second half of last year means that unless oil prices start rising again, the energy price component will pull down on inflation over coming months).

As for core inflation, the downside surprise stemmed largely from three components: apparel,

recreation, and medical care. The first two of those are often volatile from month to month, so could easily bounce back over the autumn. Medical care costs are more slow-moving and slower growth in costs in that sector may have a more persistent drag on inflation

While today's data suggests that we are less likely to see core inflation hit 2.5% this autumn, we would not rule it out and still see upward risks to core inflation. Continued increases in wage costs and the effect of the Trump administration's tariffs are likely to put upward pressure on prices.