US producer price inflation surprise

US PPI comes in well below expectations, suggesting there's little need for imminent additional policy tightening

-0.1%

Worse than expected

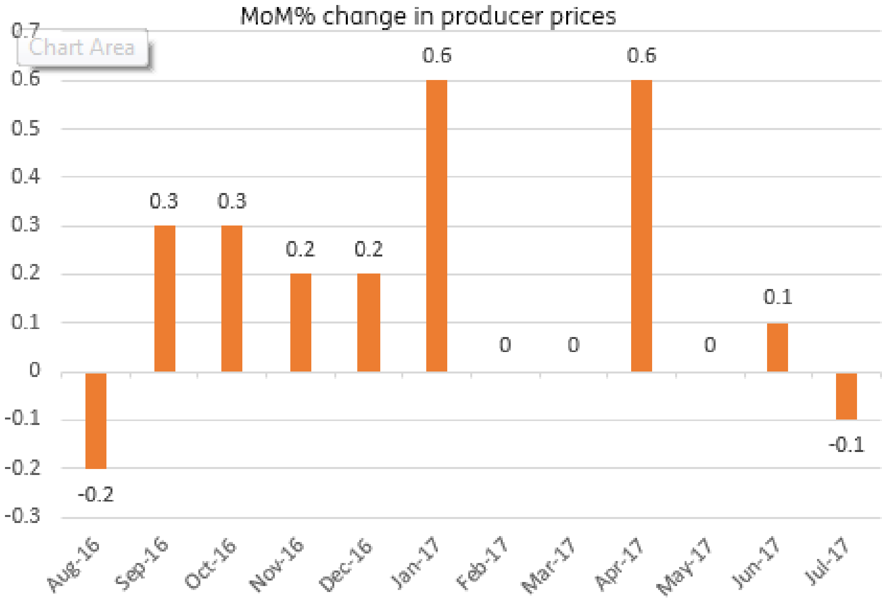
US Producer Price Inflation

Month-on-month

Lack of pipelinepressures

The US PPI report for July is surprisingly low, falling 0.1%MoM (consensus was looking for a 0.1% rise), which brings the YoY rate down to 1.9% from 2%. The market and ourselves had been looking for 2.2% or 2.3%YoY reading. Core (ex-food and energy) similarly fell one tenth of a point. This is the first MoM drop in the headline rate since August 2016 and on the face of it, it a suggests pretty benign inflation backdrop right now. Looking at the details, energy fell for the third month in a row. Chemical prices falling 5.8%MoM, autos down 3% and fuels down 3.4% seem to be the main drags.

First fall in headline PPI for 11 months



Source: ING

We still see potential for higher inflation

It's a surprise because the building blocks pointed to a much strong reading. The combination of the 10% fall in the US dollar helping to nudge up import prices, rising commodity prices (such as oil, which rose 18% trough to peak between June and July) and the underlying strength in the manufacturing sector should be helping to give a bit more pricing power to producers. Thursday's softer outcome suggests some downside risk for tomorrow's CPI report, but with the economy growing reasonably and creating jobs in significant numbers, coupled with the factors we cited regarding PPI, mean we still think inflation pressures will pick-up over coming months.

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