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Economic Research

Economic Briefing

US inflation cooled more than expected

11 July 2024

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In the USA, inflationary pressure is easing even faster than expected. Consumer prices fell by 0.1% in June compared to May. The core rate, which is more important for the trend, was 0.1%, the lowest value since January 2021. The surprisingly favorable figures are not only due to price declines for some goods known for strong fluctuations, such as air travel, but also to slowing rent inflation, which is normally not very volatile. This means that the downward trend in inflation is likely to continue. A first interest rate cut by the Fed is only a matter of time.

The data...

US consumer prices fell by 0.1% in June compared to the previous month. The year-on-year rate fell from 3.3% to 3.0%. The more important core rate, which excludes the volatile prices for energy and food, was down to a monthly rate of +0.1%. The year-on-year rate fell here from 3.4% to 3.3%. The consensus expectation and our estimate for the month-on-month rates were +0.1% (headline) and +0.2% (core).

... and the background

After consumer prices rose surprisingly sharply in the first three months of the year, inflationary pressure eased again faster than expected in the second quarter. Moreover, this applies not only to the headline rate consumer prices, which actually fell slightly in June compared to May due to cheaper gasoline. Rather, the core rate, which is more meaningful for the trend and excludes volatile prices for energy and food, has also eased noticeably.

The Fed is aiming for the deflator for personal consumption expenditures (PCE) to increase at an annual rate of 2%, which corresponds to around 2.4% for consumer prices and thus 0.2% in month-on-month terms. Most recently, underlying inflation was thus in line with the Fed's target (chart).

The question is to what extent the latest good figures will prove to be outliers similar to the inflation surge in the first quarter. In fact, the May and June figures should not simply be extrapolated, as some prices known for their strong fluctuations have surprised on the downside, such as air travel (-5% compared to the previous month), hotel accommodation (-2.5%) and used cars (-1.5%) in June. However, price increases for housing services, the most important expenditure item, have also slowed noticeably,



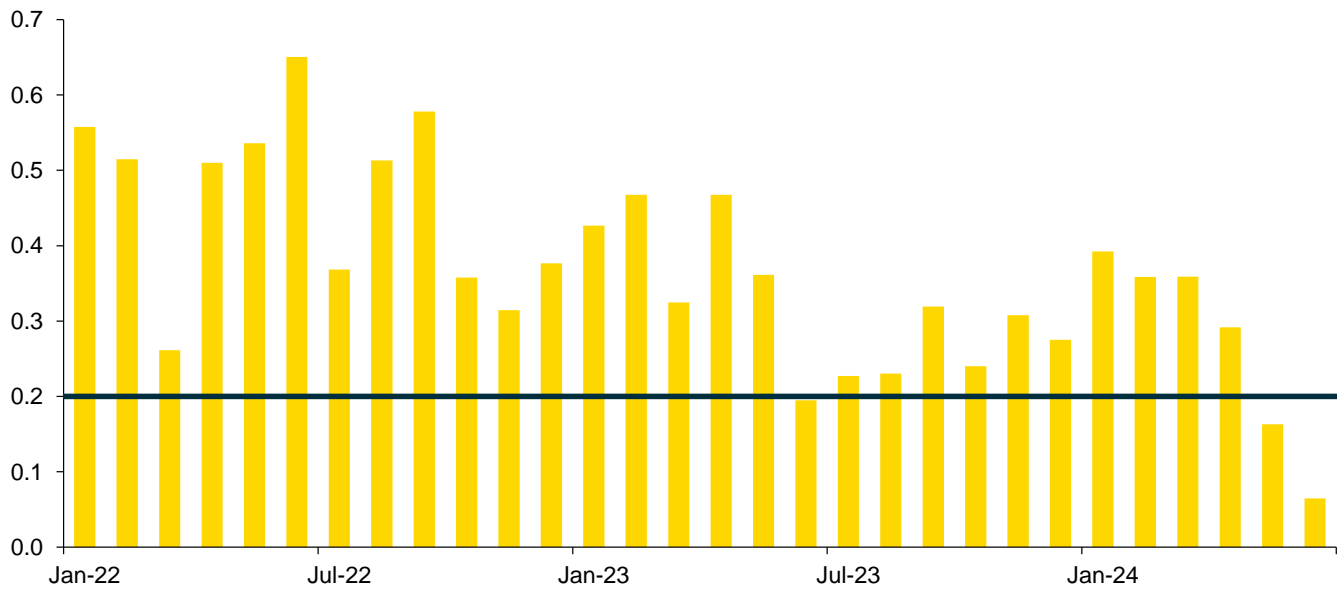
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and movements here are normally small. Overall, inflation should therefore continue to decrease.

Chart 1 - Underlying inflation slowed considerably

Consumer prices excluding energy and food, month-on-month change in %. Horizontal line: monthly rate of 0.2% which is approximately consistent with the Fed's 2% annual target which refers to the PCE deflator



Source: BLS, S&P Global, Commerzbank Research

Data open door for rate cuts even further

In his appearances before Congress this week, Fed Chairman Powell was already able to report progress on inflation, referring to the labor market, which is no longer a source of broad-based price pressure. However, the Fed still needs to gain further confidence that inflation is on a sustainable path towards the 2% target. Today's data will reinforce the Fed's view that inflation is indeed moving in the desired direction. The Fed's turnaround on rates is approaching. The risks to our current forecast that it will wait until December are increasing.



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In accordance with ESMA MAR requirements this report was completed 11/7/2024 15:11 CEST and disseminated 11/7/2024 15:11 CEST.

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