

Daily Economic Update

July 14, 2017

US inflation continued to slip lower in June

After three months of inflation readings falling well short of expectations, today’s report was a bit closer to consensus with the headline index coming in just 0.1 percentage point below expectations while the core inflation rate was unchanged as anticipated. It’s not much, but that should come as some relief to the Fed. They have attributed some of the recent slowing to transitory factors, but further disappointment would make that position more difficult to defend. In testimony to Congress earlier this week, Chair Yellen once again expressed confidence that increased resource utilization will ultimately put upward pressure on prices. But with concerns that the link between economic slack and inflation has weakened, we think the Fed will want to see some evidence of rising prices as they continue to scale back stimulus. We look for the Fed to announce plans to begin shrinking their balance sheet in September, holding off on a rate hike at that time to gauge the market impact of tapering. That brief pause should give policymakers some time reassess the trend in inflation ahead of what we expect will be another rate increase in December.

Highlights:

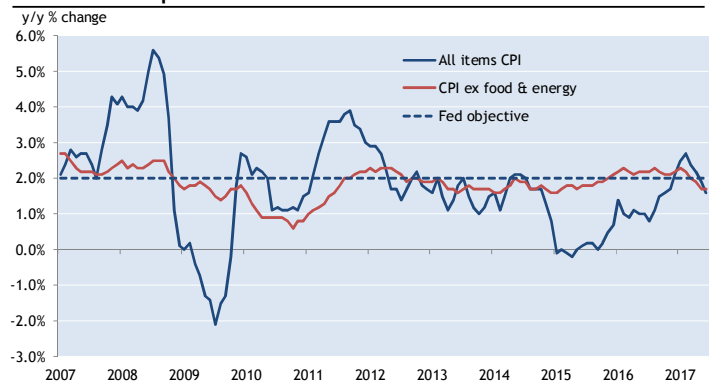
- The all items index was unchanged month-over-month in June but the year-over-year rate of inflation slipped to 1.6% from 1.9% in May.
- Just less than one third of CPI categories were growing at 2% year-over-year in June.
- Energy prices fell for the fourth time in five months. Gasoline prices, which have been a major factor in those declines, are now little changed relative to a year ago.
- Food prices were flat in June but up from year-ago levels as the disinflationary impact from that component continues to wane.
- Consumer prices excluding food and energy rose by just 0.1% for a third consecutive month. The year-over-year rate of core inflation was unchanged at a two-year low of 1.7%.
- Wireless phone services prices were down 13% year-over-year, exerting a 0.2 percentage point drag on headline inflation.

U.S. CPI Growth

	Feb-17	Mar-17	Apr-17	May-17	Jun-17
<i>month-over-month percent change</i>					
Headline CPI	0.1	-0.3	0.2	-0.1	0.0
Food prices	0.2	0.3	0.2	0.2	0.0
Energy prices	-1.0	-3.2	1.1	-2.7	-1.6
Gasoline	-3.0	-6.2	1.2	-6.4	-2.8
Core CPI	0.2	-0.1	0.1	0.1	0.1
<i>year-over-year percent change</i>					
Headline CPI	2.7	2.4	2.2	1.9	1.6
Food prices	0.0	0.5	0.5	0.9	0.9
Energy prices	15.2	10.9	9.3	5.4	2.3
Gasoline	30.7	19.9	14.3	5.8	-0.4
Core CPI	2.2	2.0	1.9	1.7	1.7

Source: Bureau of Labor Statistics, RBC Economics Research

US consumer price inflation



Source: Bureau of Labor Statistics, RBC Economics Research

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