

# Daily Economic Update

August 11, 2017

## US inflation showed more tentative signs of stabilization in July

The headline year-over-year rate ticked up to 1.7% after declining for four straight months to 1.6% in June. Excluding food and energy products, the year-over-year rate held steady at 1.7% for a third straight month. The concern around inflation year-to-date has, arguably, been more the deceleration in core price growth than the rate itself which is still just modestly below the Federal Reserve’s 2% inflation objective. In that respect, stabilization in recent months should provide further reassurance to the Fed that underlying price growth is not entering a fundamentally slowing trend. Indeed, as the Fed has noted, the core rate would be higher if not for a number of transitory factors, including a sharp decline in telecommunications prices last March that will continue to bias the year-over-year growth rate lower until it falls out of the annual calculation next year in March 2018.

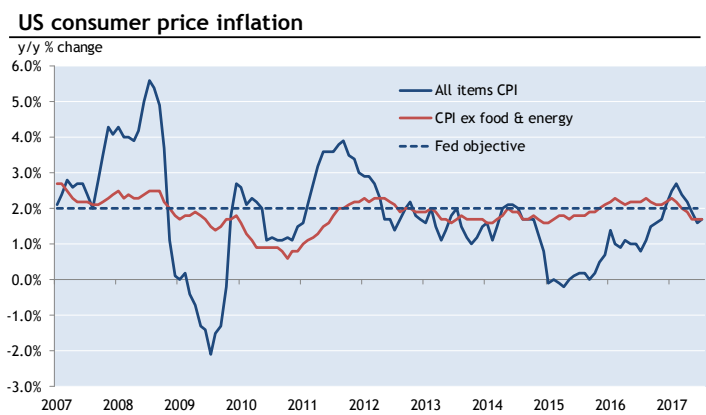
On the other hand, there is also little sign that upward inflation pressures are building. That is allowing the Fed to remain very cautious in withdrawing monetary policy stimulus despite an economy that looks strong enough to withstand further rate hikes. We look for the Fed to announce plans to begin 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 inched up 0.1% in July with the year-over-year rate also ticking up to 1.7% from 1.6% in June.
- Consumer prices excluding food and energy rose 0.1% for a fourth straight month. The year-over-year rate of core inflation was unchanged for a third straight month at 1.7%.
- Wireless phone services prices were down 13% year-over-year, marking the fifth straight month of double digit declines. The drop adds up to a ~0.2 percentage point drag on headline inflation.

U.S. CPI Growth					
	Mar-17	Apr-17	May-17	Jun-17	Jul-17
<i>month-over-month percent change</i>					
Headline CPI	-0.3	0.2	-0.1	0.0	0.1
Food prices	0.3	0.2	0.2	0.0	0.2
Energy prices	-3.2	1.1	-2.7	-1.6	-0.1
Gasoline	-6.2	1.2	-6.4	-2.8	0.0
Core CPI	-0.1	0.1	0.1	0.1	0.1
<i>year-over-year percent change</i>					
Headline CPI	2.4	2.2	1.9	1.6	1.7
Food prices	0.5	0.5	0.9	0.9	1.1
Energy prices	10.9	9.3	5.4	2.3	3.4
Gasoline	19.9	14.3	5.8	-0.4	3.0
Core CPI	2.0	1.9	1.7	1.7	1.7

Source: Bureau of Labor Statistics, RBC Economics Research



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