

## U.S. Inflation: Low and Steady

With support from higher gasoline prices and firmer rents, U.S. inflation is showing signs of stabilizing, thereby damping deflation fears. Consumer prices rose an expected 0.3% in July, nudging the yearly rate up to 1.2%. The core index also rose as expected, albeit by a modest 0.1%, keeping the yearly rate at a 44-year low of 0.9% for the fourth straight month. (Though if you want to get picky the second decimal-place figure of 0.87% is the lowest in 49 years). After trending down in the previous year, owners' equivalent rent ticked higher for the second month, as apartment vacancy rates have fallen due to the flood of defaulting owners back into the rental market. As well, clothing prices jumped again, though they remain slightly below year-ago levels. Helping to damp the core rate was the first decline in medical care costs in almost four decades (-0.1%), as more people are forgoing health care because of tight finances. In addition, recreation costs eased slightly, reflecting lacklustre demand for discretionary goods. Food and beverage costs were unchanged for the third straight month, though that could end soon given the recent spike in wheat prices.

Shorter-term metrics suggest the disinflationary winds have subsided (but linger). The 3- and 6-month annualized rates of change in the core index were both above the yearly rate (1.7% and 1.1%, respectively). Still, the massive amount of slack in the economy should encourage a further modest decline in core inflation (to 0.7%) by year end.

(seasonally adjusted)	(month/month % change)			(% change : a.r.)	
	Jul	Jun	May	6-month	12-month
<b>All Items</b>	0.3	-0.1	-0.2	0.0	1.2
<b>Ex. Food &amp; Energy</b>	0.1	0.2	0.1	1.1	0.9
<b>Food</b>	-0.1	0.0	0.0	0.8	0.9
<b>Energy</b>	2.6	-2.9	-2.9	-10.2	5.2
<b>Clothing</b>	0.6	0.8	0.2	-0.4	-0.3
<b>Transportation</b>	1.3	-1.0	-1.2	-3.1	5.6
<b>New Vehicles</b>	0.1	0.1	0.1	1.0	0.9
<b>Gasoline</b>	4.6	-4.5	-5.2	-18.3	7.4
<b>Medical Care</b>	-0.1	0.3	0.1	2.7	3.2
<b>Recreation</b>	-0.1	0.1	0.0	0.1	-0.8
<b>Education</b>	0.4	0.4	0.3	5.7	4.8
<b>Owners' Equiv. Rent</b>	0.1	0.1	0.0	0.0	-0.2

**The Bottom Line:** The steadier core rate will ease deflation fears a bit, thus reducing the possibility of renewed Fed easing. But all bets are off if the economic recovery slows further.

Sal Guatieri, 416-359-5295