Weekly Commentary

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It's all cool

Two of the big three measures of inflation cooled off in July, the federal government reported last week.

The Producer Price Index (PPI) arrived first, rising only 0.1% in July from June against the consensus of 0.2%. The annualized growth rate was 2.2%, the smallest increase since March. Even more importantly, core PPI, which strips out volatile food and energy prices, didn't grow at all from June, against expectations for 0.2% growth.

Then came the big daddy, the Consumer Price Index (CPI). Headline CPI grew 0.2% month-over-month, higher than the disinflation of -0.1% in June, but, at 2.9% year-over-year inflation grew less than June's 3.0%. Similar story for core CPI: 0.2% month over month was 2.0%, but annualized slipped a basis point to 3.2% growth from 3.3% in June. The other major inflation report, Personal Consumption Expenditures index, will come in a few weeks.

The shifts are small—cool, not cold—but they continue to be in the right direction. They give the Federal Reserve more reason to finally pivot to easing especially as the labor market appears to be softening. We expect it will cut rates in September, barring other data to the contrary.

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