

United States

Inflation upturn adds to scope for 2015 rate hike

- **Inflation edged up to 0.1%**
- **Core inflation rises to 1.8%**
- **Fed will want to see more signs of sustainable uplift in core inflation, requiring flow of solid-looking activity numbers in coming months**

US inflation moved back into positive territory in June, with a 0.3% increase in prices during the month pushing the annual rate of inflation up to 0.1% from zero in May.

From a policy perspective, the core inflation rate is the most interesting number to be looking at and, excluding food and energy, prices were 1.8% higher than a year ago, up from 1.7% in May.

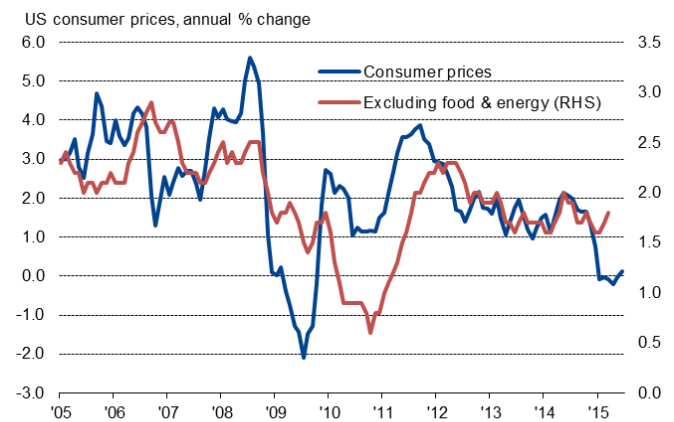
The uplift in core inflation pours further fuel on expectations of US rates rising by the end of the year. Recent comments from Fed chair Janet Yellen point to the growing likelihood of interest rates starting to rise later this year, stressing that the Fed is keen to start the process of normalising monetary policy after more than six years of near-zero interest rates. A rise could come as soon as September, when policymakers will have seen what's likely to be a chunky GDP number for the second quarter. The economy is widely estimated to have grown at an annualised rate of at least 2.5% in the three months to June, rebounding convincingly from the soft spot seen earlier in the year.

However, a September rate hike is by no means a done deal. Policymakers may once again have to step away from tightening policy any time soon if the current weak flow of data persists into coming months. Inflation will only show a sustained move back towards the 2.0% mark if economic growth remains robust. Unexpectedly weak retail sales, stagnant factory output, disappointing wage growth and business survey data signalling the slowest improvement in business conditions since October 2013 all point to the US economy losing growth momentum after the second quarter rebound.

The strong dollar, the prospect of higher interest rates and worries about the global economic outlook appear to be causing growth to weaken.

Next week's flash PMI data for July will provide the first snapshot of the health of the economy in the third quarter and provide more clarity on growth momentum.

US core sales and GDP final sales



Source: Ecwin.

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