Latest CPI surge piles pressure on Fed

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Washington | Inflation in the US has jumped to a new 41-year-high, driven by broad-based price increases in energy, food and rent.

The latest surge will place further cost-of-living pressure on the Biden administration, and ensures another large interest rate rise by the Federal Reserve later this month.

Annual consumer prices rose 9.1 per cent in June from a year ago, ahead of economists' expectations of 8.8 per cent and up from an 8.6 per cent jump in May. During the month, prices rose 1.3 per cent after having climbed 1 per cent in May.

President Joe Biden, whose approval ratings have tumbled since he took office 18 months ago, said the rate of inflation was "unacceptably high", adding that the latest report was "out-of-date" as petrol prices have dropped in the last month.

"Today's data does not reflect the full impact of nearly 30 days of decreases in gas prices, that have reduced the price at the pump by about 40 cents since mid-June," Mr Biden said.

The president jumped on the annual core inflation figure, which excludes volatile items such as petrol and food, noting the rate had declined for the third consecutive month. He stressed it was the first time since last year that the annual core inflation rate was below 6 per cent.

But the prices that count for households have further climbed. Grocery prices jumped 12.2 per cent year-on-year, the steepest such rise since 1979. The prices of beer, baby food, chicken and frozen fruit and vegetables had their largest annual gains since records were kept. Rents have risen 5.8 per cent, the most since 1986.

US grocery prices jumped 12.2 per cent year-on-year. PHOTO: BLOOMBERG

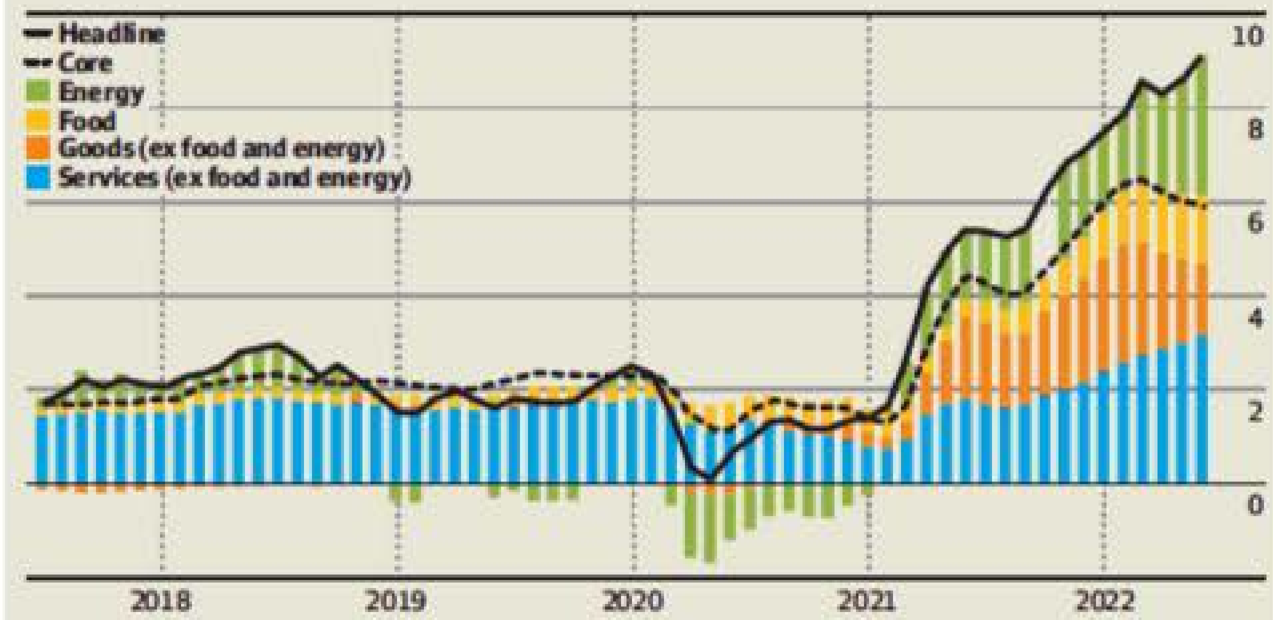
New car prices jumped 11.4 per cent from a year earlier. The cost of dental services rose 1.9 per cent, the biggest one-month increase since records began, while transport services rose 3.1 per cent in June and are up 10.4 per cent for the year.

The persistence of high inflation has pushed the Federal Reserve into the fastest series of rate increases since the late 1980s. The central bank's Federal Open Market Committee is expected to raise the official fed funds rate at its July 26-27 meeting by 0.75 of a percentage point to a range of 2.25 to 2.5 per cent, with additional half-percentage-point rate rises to follow.

Chairman Jerome Powell has repeatedly said the Fed wants "compelling evidence" that inflation is slowing before it eases its aggressive monetary tightening. Such evidence would need to be a "series of declining monthly inflation readings", Mr Powell told reporters last month.

Gathering speed

US CPI* (% YoY)



* Including topline contributions and core CPI

SOURCE: BLOOMBERG

Some economists have held out hope that inflation might be reaching, or nearing, a short-term peak.

The latest readings show the pace of some price rises is starting to slow, or even reverse.

The price of television sets, for example, fell 4 per cent in June, and TVs are now 13.8 per cent cheaper than a year ago. Car and truck rental prices have dropped 7 per cent, and are down 19.2 per cent in the last year.

With fewer ships stuck off the twin LA ports of Los Angeles and Long Beach, the largest terminals in the US, shipping costs for international freight have fallen. Commodity prices are also falling. Oil prices fell on Tuesday to about $US96 a barrel.

Wage growth has also slowed and surveys show Americans' expectations for inflation in the long run have eased.

While the decline in energy prices in the last few weeks points to near-term relief on headline inflation, strong inflationary pressures remain, said Bank of America US economist Aditya Bhave. "We think the main takeaway from this report is much stronger-than-expected underlying price pressures in both core goods and core services," Mr Bhave said.

"Our outlook for core goods includes mild deflation over the coming year, but there is little in this report to suggest it is coming anytime soon."

Bank of America expects another 0.75 of a percentage point rate increase at the Fed's meeting in two weeks.

Many economists worry the Fed's drive to quell inflation will cause it to tighten credit too aggressively, triggering a recession.

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