
Weak employment growth in July and a rise in unemployment led to fears the Fed may have been too late in cutting rates. (UBS)

# Inflation data supports our view of a gradual cooling of the US economy

15 August 2024, 2:08 pm CEST, written by UBS Editorial Team

**Underlying US inflation edged higher in July, interrupting the downward trend during the second quarter. The core consumer price index, which excludes volatile food and energy prices, rose 0.2%, up from 0.1% in the prior month, a modest increase.**

The year-over-year inflation rate continues to trend downward. Headline inflation in July increased 2.9% from a year earlier, down from 3% in June, hitting its lowest level since March 2021.

Overall, the inflation release struck the right balance for markets and reinforces our view that the US economy is headed for a soft landing.

**The consumer price index release was neither too hot nor too cool.** Ahead of the inflation release, we heard investor concerns on two fronts: The first was that price pressures would resurface, making it harder for the Federal Reserve to justify swift rate cuts if needed to support growth. The second was that inflation could cool too quickly, pointing to an abrupt weakening of demand and the onset of a recession. In this release, the inflation data struck a good balance.

The trend was also encouraging. On a three-month moving average basis, the annualized rate of core inflation fell to 1.6%, down from 2.3% in June and 4.5% as recently as March. The bottom line is that we see no impediment to rate cuts from the latest release. The most recent producer price data, which feeds into the Fed's favorite measure of inflation —the personal consumption expenditure index—was also reassuring.

**The US labor market still appears to be cooling gradually, rather than contracting.** Weak employment growth in July and a rise in unemployment led to fears the Fed may have been too late in cutting rates. However, the climb in the jobless rate to 4.3% from 4.1% may also have been partly due to the impact of Hurricane Beryl, with many people reporting they were unable to work owing to the weather.

Whether the labor market is deteriorating too abruptly should become clearer after the publication of the August jobs report. We will also get further guidance today from data on first-time claims for jobless benefits, a weekly series. The prior week's data showed the largest drop in nearly a year—supporting our view that the labor market remains solid.

**Top Fed officials have indicated they don't expect a recession yet but remain prepared to support the economy if needed.** Atlanta Fed President Raphael Bostic recently said that an economic contraction was "not in my outlook." He noted that the labor market still looked stable, adding that "we're not hearing [about] a lot of layoffs." Last week, Chicago Fed President Austan Goolsbee said that if there was a marked deterioration, the central bank would "fix it." Overall, these recent remarks suggest that the Fed will be ready to cut rates swiftly if slowing growth threatens to turn into a recession.

So the latest US inflation data supports our view of a gradual cooling of the US economy. This underlines our view that the Fed will start easing policy at its September meeting—with our base case for 100 basis points of cuts for 2024 overall. This level of easing would provide a positive backdrop for risk assets, though it would also erode returns on cash, underlining our view that investors should brace for lower rates by managing cash holdings, seeking quality bonds, and considering diversified fixed income approaches.

Main contributors: Solita Marcelli, Mark Haefele, Christopher Swann, Brian Rose, Daisy Tseng, Jon Gordon

Original report - **Soft landing on track after US inflation data, 15 August 2024.**