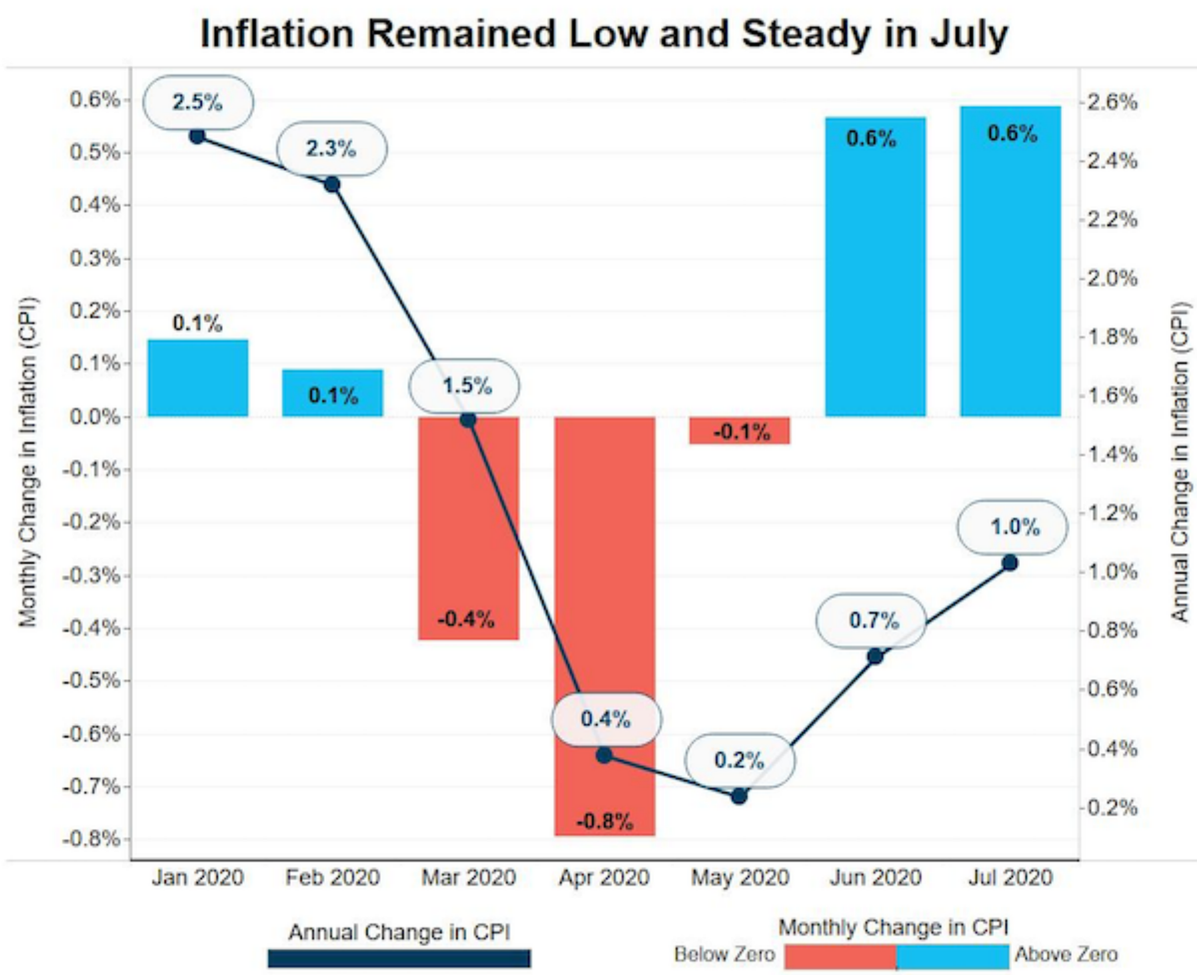
Inflation Sees Small, Steady Rise in July

The COVID-19 shock has caused unprecedented price fluctuations, particularly for products impacted the most by the virus such as food and energy. The COVID-19 shutdowns have caused unprecedented price fluctuations recently. For example, energy prices dropped sharply as demand for fuel fell. Food prices rose significantly as the demand for groceries surged.

But overall, prices fell steeply during the height of the economic contraction caused by the pandemic. In fact, for the first time ever prices fell for three consecutive months in March, April, and May.

In June, a 0.6% increase in inflation broke the trend. Today, [the Bureau of Labor Statistics (BLS) reported]() that inflation, as measured by the Consumer Price Index (CPI), once again rose 0.6% in July.



The numbers: On an annual basis, inflation is now 1%—well below the 2.3% mark it was at in February before the Great Pause. (The inflation target of the Federal Reserve is 2% annual growth.)

July prices:

- Gasoline and fuel oil prices rose over 5%

- Groceries fell 1.1% after large increases in the previous months
- Used cars and truck prices rose 2.3%
- Transportation services prices rose 3.6%

Our take: Inflation will continue to bounce around as the economy stabilizes and recovers over the coming months. The small but steady rise in July is another data point showing a recovering economy because it signals that overall demand is rising. We would like to see inflation pick up even more in the coming months.

Usually, large jumps in inflation would be a concerning sign of an overheating economy. But in the current context it would mean surging demand and a faster-recovering economy.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce