U.S.: JUNE CORE CPI INFLATION BOOSTED BY TRANSITORY FACTORS

*The U.S. Consumer Price Index (CPI) increased by 0.1% m/m in June (consensus: 0.0%), lowering its yr/yr change to 1.6% from 1.8%, a four-month low, primarily due to a 2.3% m/m (-3.4% yr/yr) decline in energy prices. The core CPI (excludes food and energy) jumped by 0.3% m/m (consensus: 0.2%), the largest gain since January 2018, lifting its yr/yr change to 2.1% from 2.0% (Chart 1).

*The upside surprise in core CPI inflation was due to a 0.4% m/m jump in the core goods component. In particular, apparel (+1.1% m/m) and used cars and trucks prices (+1.6% m/m) increased more than expected – given that these categories have bounced around a lot recently, we expect a payback in core CPI inflation in July (Chart 2). Besides these volatile components, price changes in other components were generally in line with trend, with core services prices increasing by 2.8% yr/yr (Chart 3).

*Most indicators suggest that inflationary pressures are benign – commodity prices are declining and the strong U.S. dollar is weighing on import prices and domestic goods prices. Importantly, measures of long-run inflation expectations have declined and are likely influencing price and wage setting behavior.

*The June CPI suggests that headline and core PCE inflation, the Fed’s preferred measures of inflation, remained below 2% in June. We believe that inflation in its current range is positive for economic performance, despite being below the Fed’s 2% target.

In June, only 39 of the 63 primary components of the CPI increased (m/m), suggesting that inflationary pressures are not broad-based across categories (Chart 4). The three-month annualized change in the core CPI increased to 2.2% from 1.6% and the six-month annualized change rose to 2.1% from 1.9%(Chart 5).

The most noteworthy changes in the June CPI include: 1) shelter prices, which account for 33% of the CPI, increased by 0.3% m/m after large swings in prior months; 2) used car and truck prices increased by 1.6% m/m in June after large declines in April and May – we expect a payback in the coming months; 3) apparel prices jumped by 1.1% m/m in June after outsized declines in prior months; 4) prices of alcoholic beverages increased by an above-trend 0.3% m/m after a 0.4% m/m gain in May; and 5) medical care services prices increased by 0.4% m/m in June and 0.5% m/m in May.

The BLS estimates that inflation-adjusted average hourly earnings – based on the CPI – increased by 1.5% yr/yr in June, topping 1% for the eighth consecutive month (Chart 6). Stronger real earnings growth has been associated with stronger productivity growth. This positive real earnings trend should support robust consumption growth, which is especially important for broader GDP growth as the U.S. is still mired in an industrial slump.

Retail regular gasoline prices are averaging $2.75/gallon so far in July and are on track to subtract 0.22p off of headline 12-month CPI inflation in July.

Based on the June CPI, the headline PCE and core PCE price indexes (set for release on July 30) likely increased by 1.5% yr/yr and 1.7% yr/yr, respectively, in June, compared to 1.5% and 1.6% in May. The 0.4% m/m increase in medical care services prices, which has a greater weight in the PCE price index, could boost core PCE inflation.
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Chart 1: CPI - All items, and CPI - Less Food and Energy (year-over-year, %)

Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: CPI - Apparel and Used Cars and Trucks (month-over-month, %)

Source: Bureau of Labor Statistics/Haver Analytics
Chart 3: CPI - Core Services and Core Commodities (year-over-year, %)

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Number of CPI Components Increasing On a Month-Over-Month Basis

Chart 5: CPI Less Food and Energy - three-month vs. sixth-month annualized percent changes

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 6: Real Average Hourly Earnings of Private Employees (year-over-year, %)

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
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