ECONOMIC UPDATE

REGIONS

July 13, 2022

June Consumer Price Index: We Expected Bad, We Got Even Worse . . .

- The total CPI rose by 1.3 percent in June (up 1.322 percent unrounded); the core CPI rose by 0.7 percent (up 0.706 percent unrounded)
- On a year-over-year basis, the total CPI is up 9.1 percent, and the core CPI is up 5.9 percent as of June

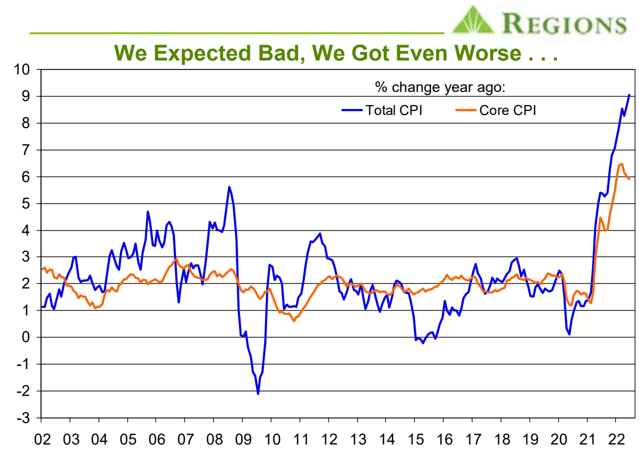
The total CPI rose by 1.3 percent in June, topping our above consensus forecast of a 1.2 percent increase, while the core CPI was up by 0.7 percent, more than the 0.5 percent increase we and the consensus expected. Higher gasoline prices were a significant support for the headline CPI, while faster rent growth and a curiously large increase in used car prices more than offset reported declines in air fares and lodging costs, speaking of curious, to push the core CPI up by more than we expected. On an over-the-year basis, the total CPI is up 9.1 percent and the core CPI up 5.9 percent as of June.

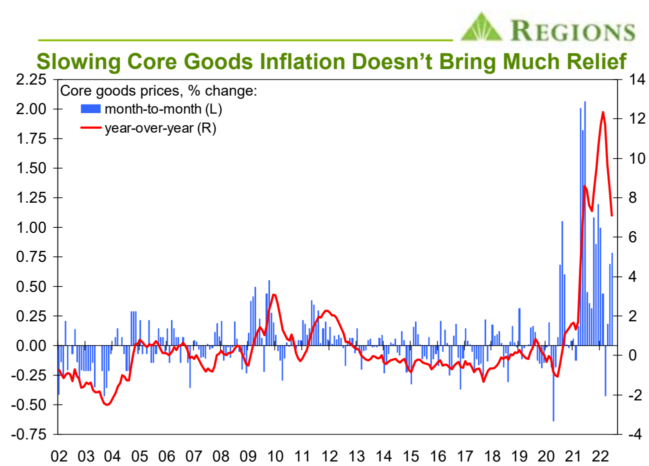
The broad energy index rose by 7.5 percent in June, leaving it up 41.6 percent year-on-year. On a not seasonally adjusted basis, retail gasoline prices were up by 9.9 percent in June, whereas the seasonal adjustment factor for the June data expected a 1.1 percent decline, which is kind of inviting Miss Manners for afternoon tea then having Roman Reigns show up with a 30-rack of IC Light. The result was that on a seasonally adjusted basis gasoline prices were up 11.2 percent. Electricity prices were up 1.7 percent while (residential) gas prices were up 8.2 percent. To be sure, the decline in retail gasoline prices over the past several weeks will put a dent in the July CPI, though given the lofty perch from which gasoline prices have fallen from, the declines seen of late may not feel all that much like relief. Food prices were up by 1.0 percent in June, with prices for food consumed at home up 1.0 percent and prices for food consumed away from home up 0.9 percent. On an over-the-year basis, the overall food index is up 10.4 percent while prices for food consumed at home are up 12.2 percent, the largest increase since March 1979.

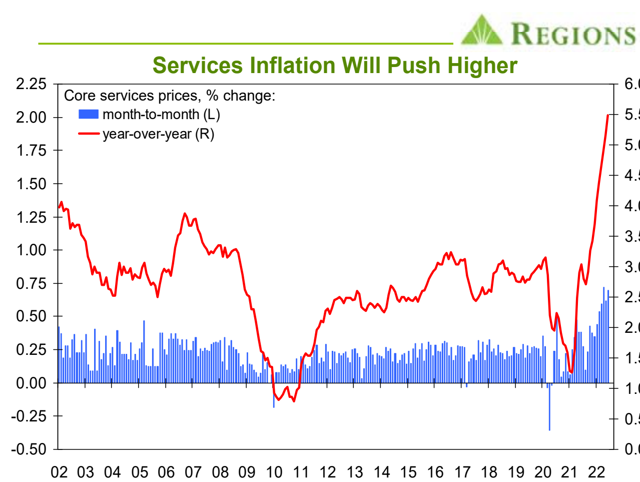
Owners' equivalent rents rose by 0.7 percent in June, posting their largest unrounded monthly increase since June 1990, while primary (market) rents were up 0.8 percent, for the largest unrounded monthly increase since April 1986. Recall that the measures of rent in the CPI tend to lag other market-based measures, so while the June data reflect some narrowing of that gap, there is more to come in the months ahead. Given the outsized weight of rents, which account for over 40 percent of the core CPI, this figures to sustain core inflation at elevated rates even as the broader economy slows. One potential source of relief, however, could be that a pronounced slowdown in the pace of home sales may dampen owners' equivalent rents, which are a function of owners' perceived values of their homes. Primary rent growth, however, is unlikely to slow to a meaningful degree absent a marked deterioration in labor market conditions.

There are some curious elements of the June CPI data. For instance, air fares are reported to have fallen 1.8 percent while lodging costs are reported to have fallen by 2.8 percent, with an even larger decline in the component including hotel rates (note to self: find a better booking agent), declines at odds with what remains notably strong demand in these areas. On the flip side, prices for used motor vehicles are reported to have risen by 1.8 percent in June, which is at odds with wholesale level data on used vehicle prices. It also bears noting that there was little follow-up to declines in prices for appliances and some categories of home furnishings seen in the May CPI data, with prices up in June, though electronics prices did fall further. More broadly, the core goods index was up 0.8 percent in June while the core services index was up 0.7 percent, for year-on-year increases of 7.1 percent and 5.5 percent, respectively. Core services inflation will likely accelerate further in the months ahead as core goods inflation continues to moderate.

While lower gasoline prices and what in many cases is aggressive discounting on the part of inventory-laden inventories will lead to a much more moderate increase in the CPI in July, that won't be much cause for celebration given that headline inflation will likely remain above 8.5 percent. Perhaps the bigger question is the extent to which the recent declines in energy and commodity prices and a marked slowdown in economic growth will bring some relief from inflation pressures. While we do expect that will be the case, we also continue to think that, given how broadly based and entrenched inflation pressures have become, it's going to be a long trip back down to 2.0 percent.







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