ECONOMIC UPDATE

REGIONS

August 10, 2023

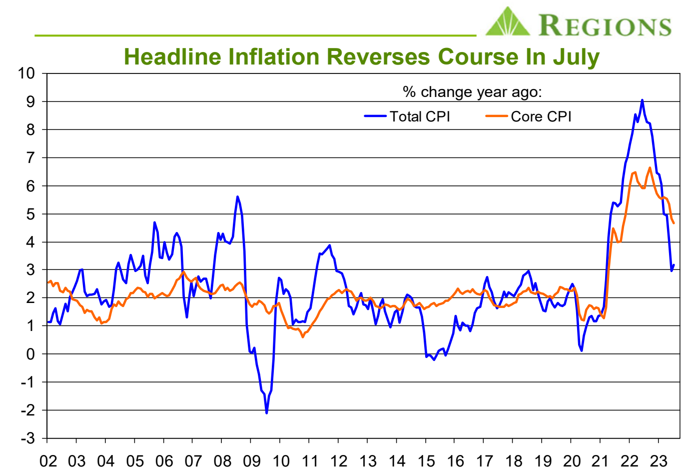
July Consumer Price Index: For Better (July) Or Worse (August)

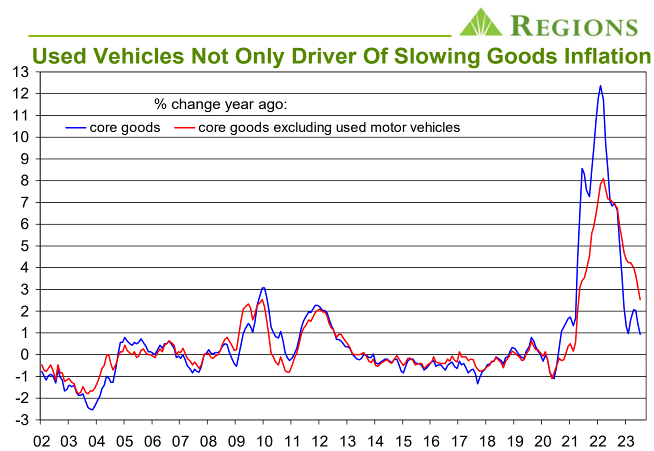
- The total CPI rose 0.2 percent in July (up 0.167 percent unrounded); the core CPI rose 0.2 percent (up 0.160 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.2 percent and the core CPI is up 4.7 percent as of July

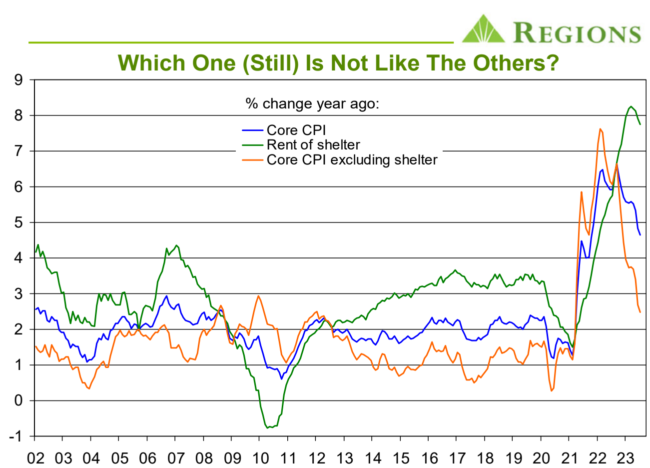
The total CPI and the core CPI each rose by 0.2 percent in July, matching what we and the consensus anticipated. On a year-on-year basis, the total CPI is up 3.2 percent, and the core CPI is up 4.7 percent. Note that the over-the-year change in the total CPI is greater than the 3.0 percent increase as of June, reflecting the fading of favorable base effects that pushed headline inflation meaningfully lower in both May and June. We will, however, note that the annualized three-month increase in the total CPI, a means of working around base effects, was just 1.9 percent in July. Clearly, there has been considerable progress on the inflation front but, just as clearly, there is much further to go. While there was almost universal agreement as to what to expect from the July CPI data, that isn't so much the case when it comes to interpreting the July data. Many are pointing to the fairly tame July data as supporting the FOMC leaving the Fed funds rate unchanged at their September meeting, but we're not so sure as sharply higher gasoline prices will push headline inflation higher in the August data. As of the first week of August, retail gasoline prices were 6.1 percent higher than the July average which, after seasonal adjustment, would translate into a better than ten percent increase in the CPI data. That alone would add three-tenths of a point to the August change in the headline CPI and push the over-the-year increase up to 3.7 percent, and that doesn't account for what could be faster food price inflation in the August data. To be sure, it could be that the FOMC sees faster headline inflation as, well, transitory (sorry, too soon?) and instead focuses on core inflation. But, as the August CPI data come out the week prior to the September FOMC meeting and given that not all FOMC members see the Committee's work as being done, we think it too soon to see a pause at the September meeting as a lock. We've also heard others point to evidence of deflation in China as something that will translate into lower inflation around the globe, giving the FOMC and other central banks grounds to stand pat. We'd also take issue with this interpretation, particularly given that while the total price index for China did fall in July, the core price index was up 0.8 percent, which sounds suspiciously not like deflation to us. Again, we see it as far too soon to draw any firm conclusions as to what the FOMC may or may not do at their September meeting.

The broad energy index rose by just 0.1 percent in July, with retail gasoline prices up 0.2 percent. Keep in mind, however, that after falling from mid-June through early-July, gas prices began to rise sharply, in part reflecting refinery outages here in the states and in part reflecting higher oil prices. While the former may indeed prove to be fleeting, the latter seems not only more lasting but also not yet finished, i.e., oil prices are likely to climb further, thus keeping upward pressure on retail gasoline prices. The overall index of food prices rose by 0.2 percent in July, as our forecast anticipated, but the mix was a bit different than we expected. Prices for food consumed at home rose by 0.3 percent, the largest increase since February, while prices for food consumed away from home rose by 0.2 percent, the smallest increase since March 2021. Though still up over seven percent year-on-year, the monthly increases in prices for food consumed away from have softened considerably over the past few months. Along with ongoing declines in air fares (a second straight 8.1 percent decline) and lodging rates (down three of the past four months), this could reflect wavering demand for discretionary services.

Core goods prices were down 0.3 percent in July, helped along by a 1.5 percent decline in prices of used motor vehicles, but even excluding used vehicles core goods prices were down in July. Prices for large appliances fell, and prices for home electronics fell sharply, though the latter could reflect heavy discounting tied to *Amazon Prime Days(s)* and other retailers trying to keep pace. There was slight moderation in the CPI measure of market rents, but owners' equivalent rents posted a larger increase in July than in June. Core services prices were up 0.4 percent, yielding an over-the-year increase of 6.1 percent. Motor vehicle insurance rates continued their rapid rise, up 2.0 percent in July and up 17.8 percent year-on-year. While the CPI's methodological quirk continues to yield steep declines in health insurance premiums, July saw a significant jump in prices for nursing home services.







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