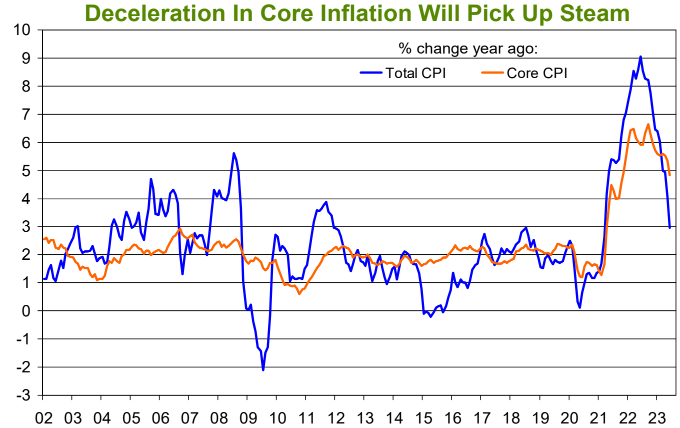
ECONOMIC UPDATE
REGIONS
July 12, 2023

June Consumer Price Index: True Inflection Point, Or More Noise In A Noisy Series?

- The total CPI rose 0.2 percent in June (up 0.180 percent unrounded); the core CPI rose 0.2 percent (up 0.156 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.0 percent and the core CPI is up 4.8 percent as of June

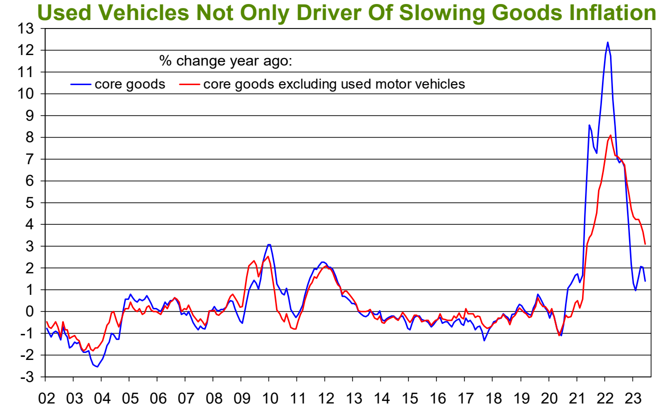
The total CPI and the core CPI each rose by 0.2 percent in June, both a tenth of a point less than we and the consensus anticipated. On an unrounded basis, the increase in the core CPI is the smallest monthly increase since February 2021 which at the time put core CPI inflation at . . . 1.3 percent so, in other words, that was a long time and a lot of Fed funds rate hikes ago. On a year-on-year basis, the total CPI is up 3.0 percent and the core CPI is up 4.8 percent, and while the sharp deceleration in headline inflation over the past two months largely reflects favorable base effects and moderation in food and energy price increases, the deceleration in core inflation in June is more noteworthy, as it reflects a downside break from the range that had held over the prior several months. To that point, at 4.1 percent in June, the annualized three-month increase in the core CPI is the smallest such increase since September 2021. Moreover, we see further downside room in the months ahead, particularly if we are correct in expecting a marked pullback in consumer spending on discretionary services. That said, both headline and core inflation remain well above the FOMC's 2.0 percent target rate, and the June CPI data are unlikely to fend off another twenty-five basis point hike in the Fed funds rate at this month's meeting. We continue to expect this to be the last funds rate hike of this cycle, as we expect the economic landscape to look much different come the September FOMC meeting than is the case today, thus making further rate hikes much harder to justify.

Deceleration In Core Inflation Will Pick Up Steam



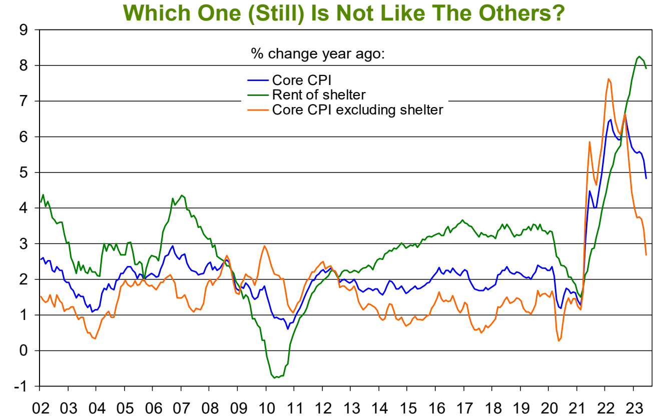
The broad energy index rose by 0.6 percent in June, leaving it down 16.7 percent year-on-year. On a seasonally adjusted basis, retail gasoline prices rose by 0.9 percent in June, and electricity prices rose, in part reflecting price hikes in a number of states. These increases were blunted by lower prices for residential gas service and other types of household fuels. The broad food price index rose by 0.1 percent, a smaller increase than we had anticipated, as prices for food consumed at home were flat while prices for food consumed away from home were up 0.4 percent. On an over-the-year basis, prices for food consumed at home were up 4.7 percent, off sharply from the 13.5 percent peak seen last August but still well above the pre-pandemic pace.

Used Vehicles Not Only Driver Of Slowing Goods Inflation



The index of core goods prices was down slightly (-0.055 percent) in June, held down by a 0.5 decline in prices for used motor vehicles while prices for new vehicles were flat. As is typically the case, the CPI measure of used vehicle prices is significantly lagging market based measures, all of which showed substantial declines in June. These declines will make their way into the CPI data over coming months. As always, we see the BLS's index of core goods prices excluding used motor vehicles, as a more useful gauge of core goods price pressures; that index was unchanged in June, the third straight month in which that was the case. This yielded a year-on-year increase of 3.1 percent, which is the smallest such increase since May 2021. June saw sharply lower prices for a range of household goods, including appliances, extending a run of weakness in these components.

Which One (Still) Is Not Like The Others?



Core services prices rose by 0.3 percent in June, good for a year-on-year increase of 6.2 percent. Primary rents posted another 0.5 percent increase but owners' equivalent rents were up by just 0.4 percent, with the unrounded increase the smallest since December 2021. This is another area in which the CPI data tend to lag market data, so coming months should bring further moderation in rents, particularly the over-the-year increases, which continue to hover around 8.0 percent. Costs for lodging were down 2.0 percent in June, and while this largely reflects favorable seasonal adjustment, it is fair to note that the not seasonally adjusted data had to have been weaker than normal for the month of June for the adjusted data to show this sharp of a decline. This is noteworthy in conjunction with the 8.1 percent decline in air fares. We've noted the disparity in nominal and real measures of consumer spending on discretionary services, and the declines in lodging rates and air fares in June suggest weakening underlying demand.

The big question is whether the June CPI data marks a true inflection point in the path of core inflation or are just more noise in a noisy data series. We seen it as more the former than the latter, but it is clearly too soon to know, for us and for the FOMC.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com