ECONOMIC UPDATE

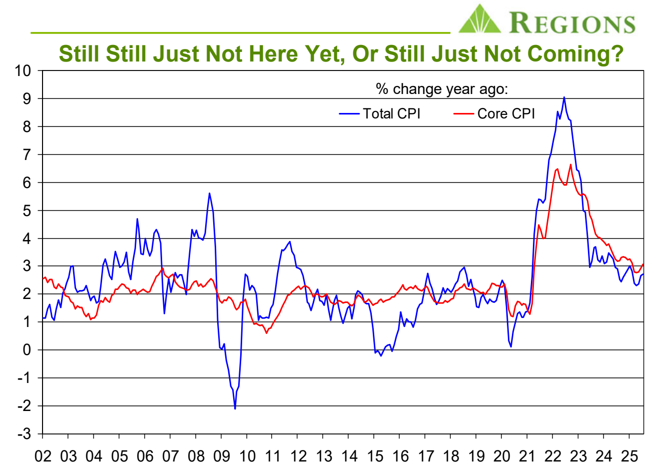
REGIONS

August 12, 2025

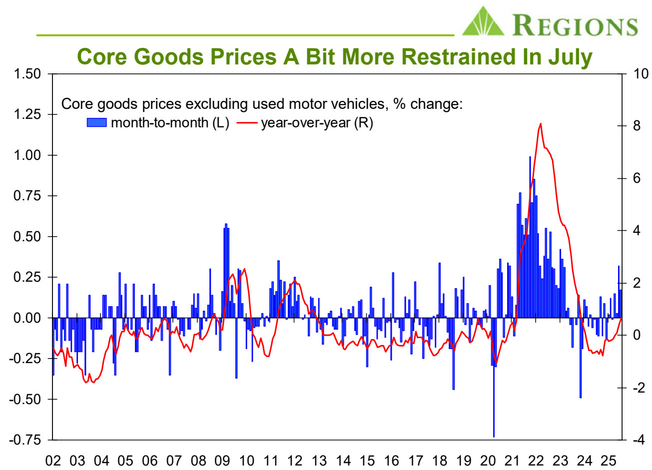
July Consumer Price Index: Services Prices, Not Goods Prices, Drive Core CPI In July

- The total CPI rose by 0.2 percent in July (up 0.197 percent unrounded); the core CPI rose by 0.3 percent (up 0.322 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.7 percent and the core CPI is up 3.1 percent as of July

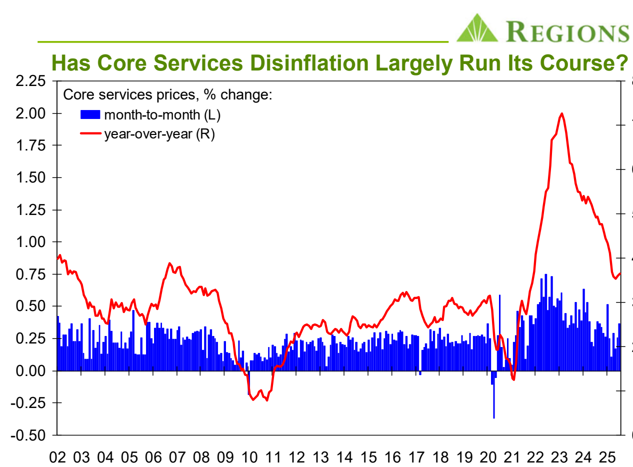
The total CPI rose by 0.2 percent in July with the core CPI up by 0.3 percent, each matching what we and the consensus expected. As of July, the total CPI is up 2.7 percent year-on-year and the core CPI is up 3.1 percent. While the monthly changes in both the total and core CPI were in line with our forecasts, the details did not exactly play out as we anticipated, with the unrounded increase in the total CPI being a bit smaller than our forecast anticipated and the unrounded increase in the core CPI being a bit larger. While core goods prices came in a bit softer than we anticipated, core services prices came in a bit hotter than we expected, with prices for medical services and a jump in air fares being the main culprits. As we noted in our preview of the July CPI report, the July data would not settle the question of the extent to which we will see tariff pass-through pushing core goods prices higher, though we will note that those effects were milder than we anticipated. We also noted, however, that there would be less of an offset to tariff pass-through from services price disinflation, which proved to be the case in July and which we expect to remain the case going forward. While we continue to expect more pronounced core goods price inflation, particularly from new motor vehicles, going forward, there will only be so many months in which we can continue to ask whether it's just not here yet or it's just not coming. We, however, have more of those months remaining than the FOMC, particularly as more FOMC members become more vocal with their concerns over what they see as softening labor market conditions. Indeed, even if the August CPI data, set for release the week before the September FOMC meeting, bring evidence of stronger tariff pass-through, that may not be enough to preclude a Fed funds rate cut at that September FOMC meeting. Indeed, while the July CPI report does not seal the deal for a September funds rate cut, there is nothing in the report that would tell the Committee not to cut the funds rate.



The overall index of food prices was flat in July, surprising us to the downside, with prices for food consumed at home down by 0.1 percent and prices for food consumed at home up by 0.3 percent. While the 2.2 percent decline in gasoline prices on a seasonally adjusted basis matched our forecast, electricity rates surprised us by falling 0.1 percent, ending a string of hefty increases. As such, the 1.1 percent decline in the overall energy index was larger than we expected. Given rising demand and increases in production costs, however, we'd be surprised if the decline seen in electricity rates in July was not a one-off decline.



Core goods prices rose by 0.2 percent in July, softer than we anticipated particularly given the 0.5 percent increase in prices for used motor vehicles. The BLS's measure of core goods prices excluding used motor vehicles also rose by 0.2 percent, but that was not far from rounding down to a 0.1 percent increase, going to our point about tariff pass-through effects being milder than we anticipated. One key element of that was the 2.2 percent decline in appliance prices, ending a run of large increases. While we did not expect to see an increase as large as those of recent months, neither did we expect to see a decline in July, particularly of that magnitude. Still, prices for furniture and electronics posted hefty gains in July. Prices for new motor vehicles were flat in July, and while thus far vehicle manufacturers have been notably restrained in raising prices, absorbing the costs of higher tariffs out of margins instead, we continue to think this will change in the months ahead, particularly with the new model year arriving in the fall.



Lodging rates fell by 1.0 percent, reflecting a further decline on a not seasonally adjusted basis. Air fares, however, rose by more than we anticipated. On a not seasonally adjusted basis, air fares fell by 3.1 percent which, barring 2020, is the smallest July decline since 2013. This translated into an increase of 4.0 percent on a seasonally adjusted basis, the largest July increase since 2013, again barring 2020. This goes to a point we've been making, which is that going forward seasonal adjustment will work to exaggerate price increases for discretionary services. July also saw another firm advance in prices for medical services, a key factor in core services inflation being faster than we anticipated and one area which is notably beyond the reach of monetary policy. The July data also show further deceleration in rent growth, helping restrain overall core services inflation.

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