

U.S. Data Review

- CPI: energy pressure; reversal of Covid-related discounting, random volatility

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Consumer Price Index

The CPI provided a surprise in July with a jump of 0.6 percent, notably firmer than the expected increase of 0.3 percent. Energy prices contributed to the increase with a jump of 2.5 percent, but this was not the source of the surprise; in fact, this increase was lighter than the 5.0 percent advance we expected. The big surprise occurred in the core component, which rose 0.6 percent versus the consensus estimate of 0.2 percent.

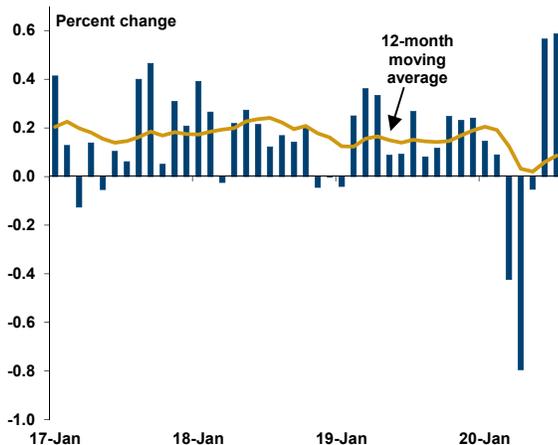
Much of the increase in the core component represented reversals of discounting that occurred in the initial stages of the pandemic. Airfares, hotel fees, and apparel prices all rose sharply for the second consecutive month after sharp reductions in prior months. Even with increases in the past two months, the levels of these components remained well below readings before the onset of Covid. For example, airfares jumped 8.2 percent in the past two months, but they fell 29.7 percent in the preceding four months. Other areas with lighter weights in the index, such as car rentals and haircuts, also showed Covid-related shifts (discounting or flat results followed by sharp hikes).

Some of the pressure in the core index seemed to reflect random volatility. For example, prices of used cars jumped 2.3 percent, but the increase followed three months of price cuts. Tobacco prices sometimes show notable swings, and they rose in both June and July after discounts in the prior two months. Charges for wireless telephone services, which showed almost no change during 2019 and the first half of this year (after discounting in 2017 and 2018) suddenly jumped 3.6 percent in July.

Some areas were subdued in July. Rental rates of primary residence rose 0.2 percent or less for the third time in the past four months. This area had been increasing at rates of 0.3 percent or more in most prior months. Prices of recreation services fell 1.2 percent, led by discounts on admission fees and club dues.

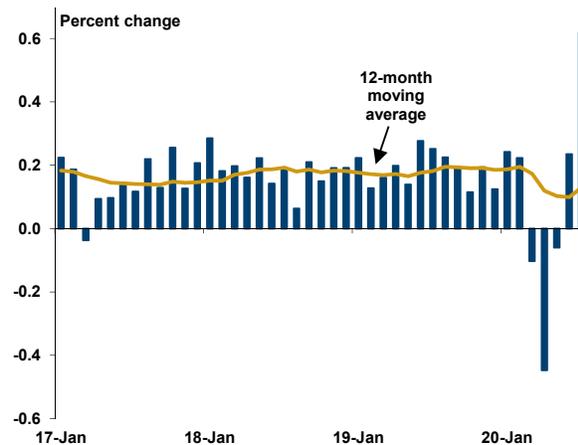
The latest monthly results left the headline index up 1.0 percent on a year-over-year basis, up from only 0.1 percent two months prior, but still well below the recent high of 2.5 percent in January. The core index rose 1.6 percent in the past 12 months, up from 1.2 percent in the prior two months but shy of the 2.4 percent registered in February.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

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