U.S. Data Review

- CPI: ongoing moderation in July

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CPI

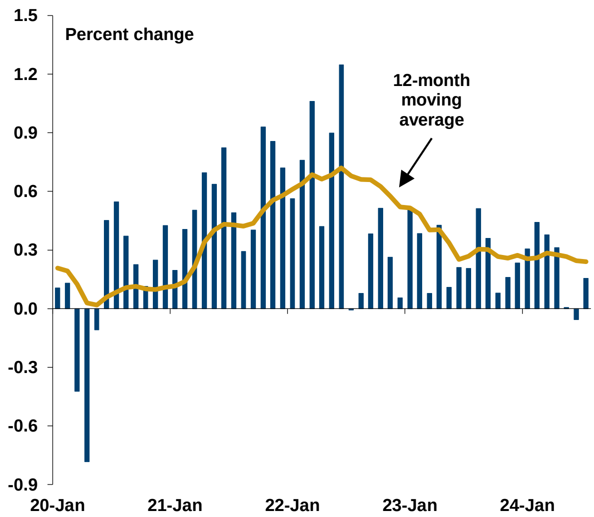
- The CPI registered its third consecutive favorable reading in July, suggesting that inflation is gradually easing back toward the Federal Reserve's target of two percent and solidifying the case for a rate cut at the September 17-18 FOMC meeting. With respect to the anticipated move, we still favor a cut of 25 basis points rather than a more aggressive reduction of 50 basis points that would be triggered by signs of dramatic slowing in inflation or material weakening in the labor market.

- Specifically regarding the July CPI report, the latest increases of 0.2 percent for both the headline and core (+0.155 percent and +0.165 percent, respectively, with less rounding) readings aligned with market expectations and followed the broad contours of other recent inflation reports (charts, below). The changes translated to year-over-year advances of 2.9 percent for the headline index and 3.2 percent for the core measure – both one tick slower than readings in June.

- The energy component was flat in July (up marginally with less rounding: + 0.027 percent) after back-to-back declines (+1.1 percent year-over-year). Prices of energy commodities rose modestly (+0.1 percent), while costs of energy services declined modestly (-0.1 percent).

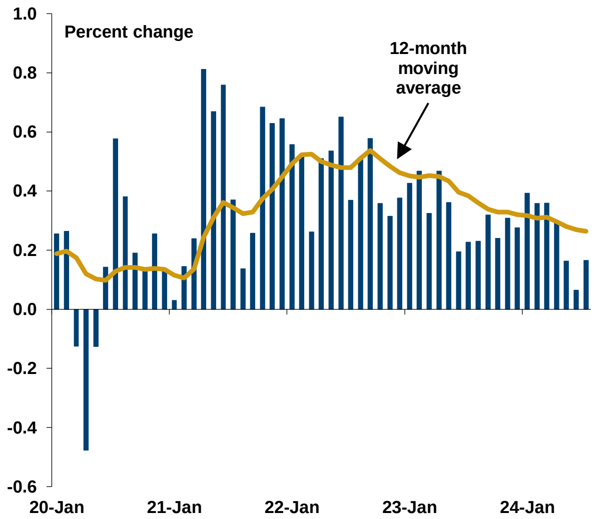
- The food component advanced 0.2 percent (+0.159 percent with more precision; +2.2 percent year-over-year). Both the food at home (groceries) and food away from home components recorded modest increases (+0.1 percent and +0.2 percent, respectively; the index for food away from home is not seasonally adjusted).

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

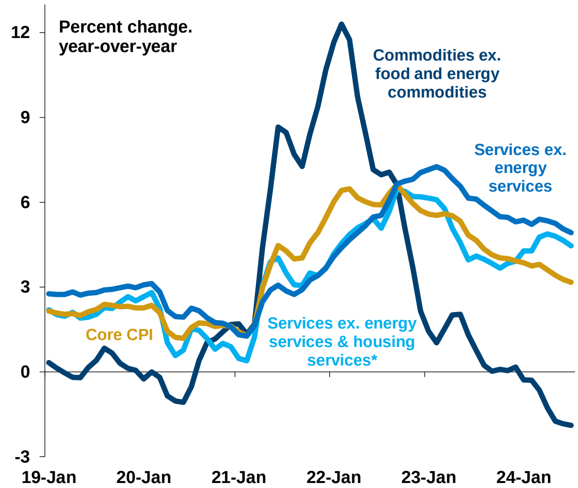
Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

- The increase of 0.2 percent in the core component marked the third consecutive reading of that magnitude or less (+3.2 percent year-over-year, down from +3.3 percent in June; chart, right). Core commodities prices declined 0.3 percent (-1.9 percent year-over-year versus -1.8 percent in June), continuing their deflationary trend after acute pressure earlier in the expansion. Services prices excluding energy services, in contrast, rose 0.3 percent in July (+4.9 percent year-over-year versus +5.1 percent in June). In the latest month, the rent of primary residence and owners equivalent rent of residences indexes returned to previous firm trends after smaller advances rounding up to 0.3 percent for both in June. Primary rents jumped 0.5 percent and OER rose 0.4 percent. The year-over-year increase in the rent of primary residence component rose slightly (+5.089 percent versus +5.075 percent in June), while the advance in owners' equivalent rent slowed modestly (+5.305 percent versus +5.448 percent). The month-to-month advances in these components suggest that ongoing vigilance is required by policymakers with regard to inflation. Core service inflation excluding rents and OER (the so-called supercore) increased 0.2 percent after a dip in the previous month. The gain was in part influenced by a jump of 1.2 percent in the motor vehicle insurance area, continuing a brisk upward trend, although other areas registered declines (for example, airline fares fell 1.6 percent and costs of medical care services eased 0.3 percent). On a year-over-year basis, the advance in the supercore measure moderated to 4.5 percent from 4.6 percent in the prior month.

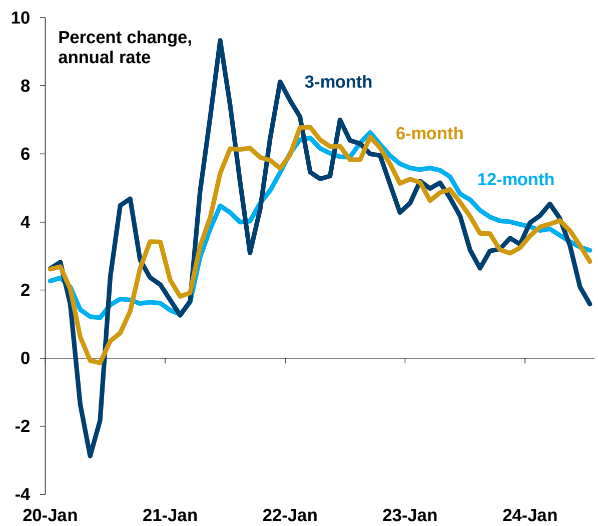
Decomposition of Core CPI



** Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.*
Source: Bureau of Labor Statistics via Haver Analytics

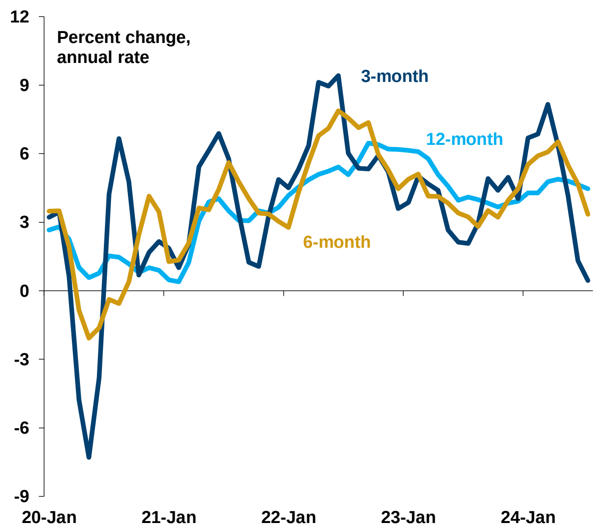
- To better contextualize the data in terms of trends tracked by Fed officials, see below the three and six-month annualized growth rates, as well as the year-over-year changes, for the core and supercore measures. The three-month growth rate for the core CPI slowed to 1.6 percent from 2.1 percent in June, and the six-month annualized change eased to 2.8 percent from 3.3 percent. The latest shift in the supercore area was more impressive (+0.4 percent, annual rate, on a three-month basis versus 1.3 percent in June, and a six-month rate of 3.4 percent versus 4.7 percent). The numbers are moving in the right direction – which as we noted earlier raises the prospect of the rate-cut cycle beginning in September – although year-over-year changes of 3.2 percent for the core and 4.5 percent for the supercore suggest there is yet some work to be done on the inflation front.

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Core Services Ex. Housing



Source: Bureau of Labor Statistics via Haver Analytics