Daiwa Capital Markets

U.S. Data Review

- CPI: in line with expectations; subdued tariff-related pressure; airfares drive firm advance in core services ex. housing

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

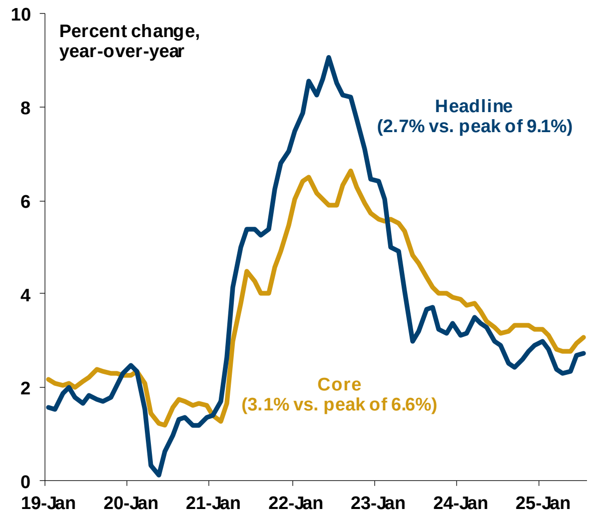
July CPI

- The increase in the CPI for July was in line with the Bloomberg survey median expectation, with the headline increasing 0.2 percent (+0.197 percent with less rounding) and the core rounding down to an advance of 0.3 percent (+0.322 percent). The changes translated to year-over-year increases of 2.7 percent for the headline index (+2.705 percent versus +2.669 percent in June; chart, below left) and 3.1 percent for the core index (+3.059 percent versus 2.934 percent previously; chart, below left). The latest shifts reflected pockets of pressure in both core goods and services, although the expected burst of inflation tied to tariffs has yet to materialize (if it will at all). Thus, with a clearer view on inflation -- particularly in light of recent trade deals, with many implementing 15 percent tariff rates – the FOMC may soon be able to act to support the labor market.

- The energy component fell 1.1 percent in July (-1.6 percent year-over-year; chart, below right), with prices of both energy commodities and services easing (-1.9 percent and -0.3 percent, respectively). On a year-over-year basis, the energy commodities index dropped 9.0 percent, which stood in contrast to an advance of 7.2 percent in the index for energy services. Gasoline prices (-2.2 percent month-over-month in July, the fifth decline in the past six months) have anchored the costs of energy commodities, while costs of electricity and piped natural gas have remained under consistent pressure before easing in the latest month (-0.1 percent and -0.9 percent, respectively).

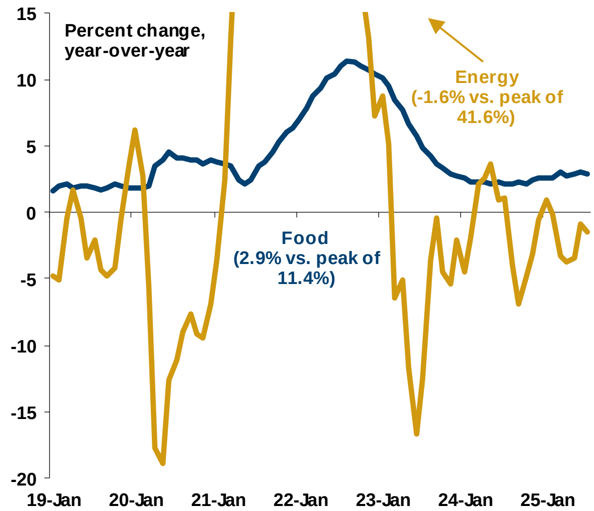
- The food component rounded down to no change in the latest month (+0.045 percent with less rounding; +2.9 percent year-over-year; chart, below right) after back-to-back increases of 0.3 percent. Prices of food at home dipped 0.1 percent (+2.2 percent year-over year versus +2.4 percent previously). The food away from home area (i.e., restaurant meals and other carry-away products) rose 0.3 percent (not seasonally adjusted), which equated to a year-over-year increase of 3.9 percent – up 0.1 percentage point from the prior month's advance. The year-over-year trend in the aggregate food index has leveled off above the pre-pandemic trend after tilting higher from late 2024 through early 2025 – a development that bears watching but not overly concerning at this juncture. Moreover, the latest year-over-year change is well below the recent peak of 11.4 percent in August 2022.

CPI: Headline & Core



Source: Bureau of Labor Statistics via Haver Analytics

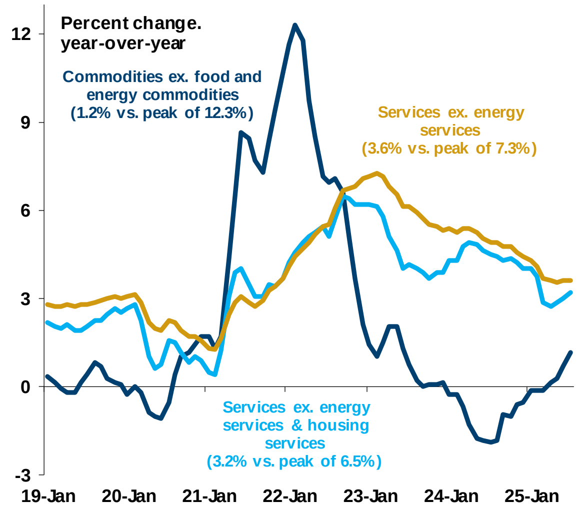
CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

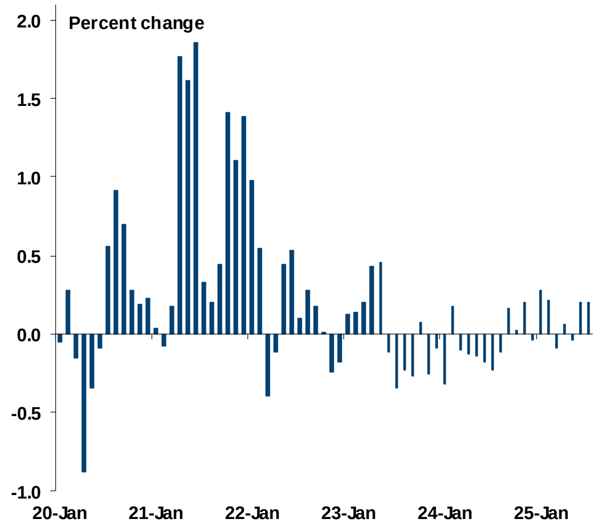
- The advance of 0.3 percent in the core index reflected pickups of 0.2 percent in the commodities less food and energy commodities area (i.e., core goods; +1.2 percent year-over-year versus +0.7 percent in June) and 0.4 percent in the services less energy services grouping (+3.6 percent year-over-year, essentially matching the prior month's result). On the goods front, tariff-related price pressure remained fairly muted. The household furnishings and supplies area recorded an increase of 0.7 percent after a jump of 1.0 percent in the prior month, but results in sub-categories were mixed. For example, the costs of tools, hardware, outdoor equipment and supplies rose 1.6 percent, but prices of appliances fell 0.9 percent after three consecutive months of firm advances. Moreover, other categories have remained contained. On that front, prices of new vehicles rounded down to no change in July after modest back-to-back decreases of 0.3 percent. Subdued price changes for new vehicles could represent dealers avoiding price increases until new models are released later this year, or it could signal that slack demand is preventing price pass-though. On the service side, shelter costs remained contained. The rent of primary residence component rounded up to 0.3 percent, a reading within the 2025 range, with the year-over-year change slowing to +3.5 percent from +3.8 percent previously and in line with pre-pandemic trends. Similarly, owners' equivalent rent of residences rose moderately (+0.3 percent for the third consecutive month), and the year-over-year advance eased 0.1 percentage point to 4.1 percent – above the pre-pandemic range but still slowing (charts, next page). Hotel fees also were soft, dropping 1.3 percent after falling 3.6 percent in the prior month – again perhaps suggestive of easing in discretionary areas. The core service less housing area (i.e., the "supercore" measure) jumped 0.5 percent in July (+0.479 percent versus +0.212 percent in June), with the year-over-year advance accelerating to 3.2 percent from 3.0 percent. Airfares were a key culprit, jumping 4.0 percent after five consecutive declines, although costs of medical care services recorded a firm advance as well (+0.8 percent following an increase of 0.6 percent in June, further evidence that prices are stirring in this area). Conversely, the costs of motor vehicle insurance rose only 0.1 percent for the second consecutive months, supportive of the view that pressure is subsiding in this area.

Decomposition of Core CPI



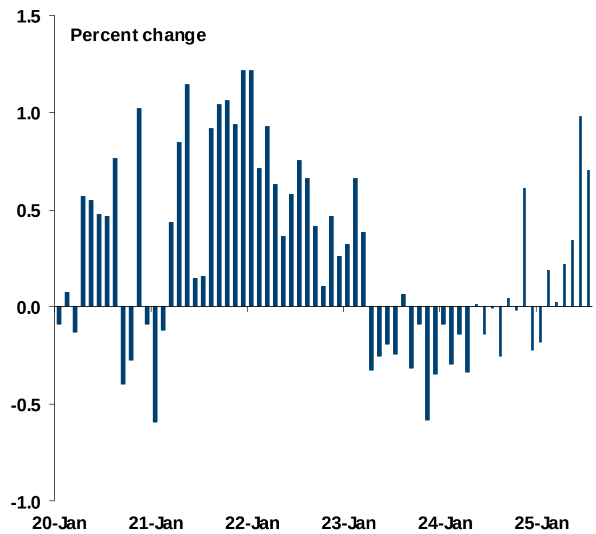
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Core Goods



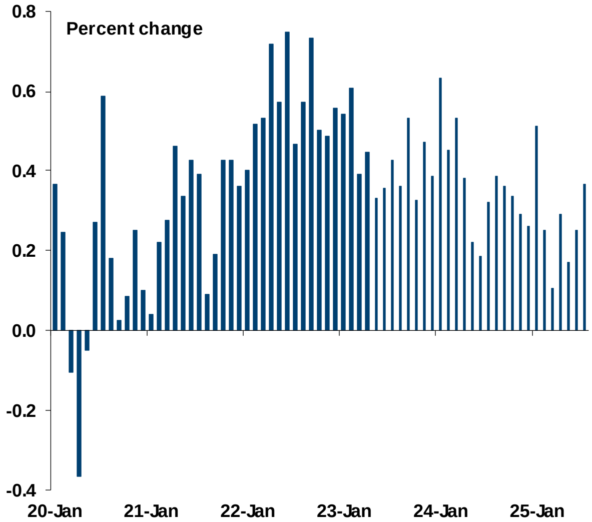
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Household Furnishing and Supplies



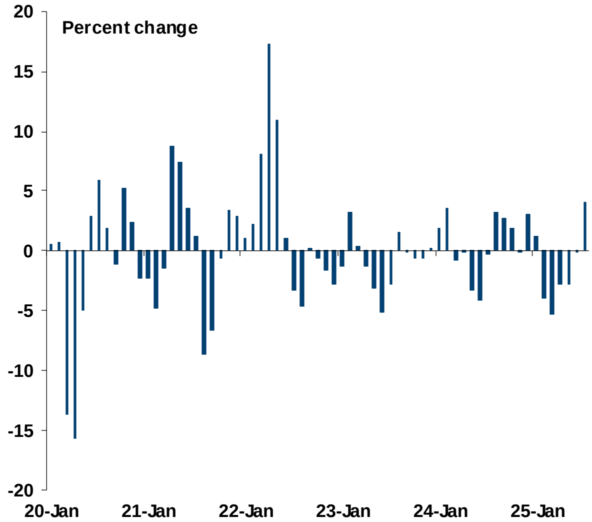
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Core Services



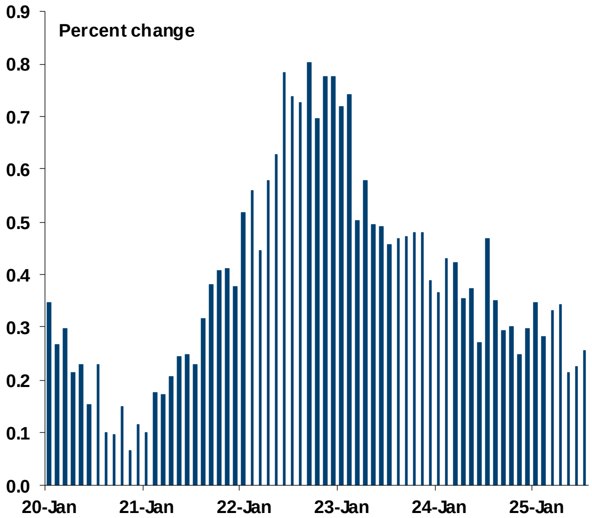
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Airline Fare



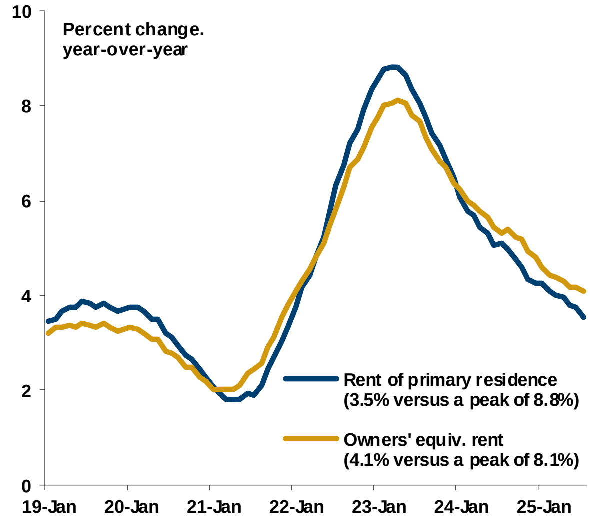
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Rent of Primary Residence



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics

- All told, consumer inflation remains above the FOMC's target of 2 percent but the development does not preclude policy easing at upcoming FOMC meetings (with the next cut likely to occur at the September gathering). The advance in the CPI suggests a 0.3 percent increase in the core price index for personal consumption expenditures, which would translate to an advance of 2.9 percent on a year-over-year basis (versus 2.8 percent in June), but the stalling in progress, in our view, is seemingly transient and likely to subside in 2026. Moreover, policymakers may be shifting focus to averting further cooling in the labor market – especially after tepid payroll growth in July and sharp downward revisions to data for May and June suggest intensifying downside risks to the employment side of the Fed's dual mandate. Even so, our views on the September meeting may evolve in light of upcoming inflation and employment reports (July data for the PCE price index and August data for the CPI and payrolls).