ECONOMIC UPDATE
REGIONS
August 12, 2020

July Consumer Price Index: Large Increases Unlikely To Be Sustained

- The total CPI rose by 0.6 percent (0.587 percent unrounded) in July; the core CPI rose by 0.6 percent (0.620 percent unrounded)
- On a year-over-year basis, the total CPI is up 1.0 percent and the core CPI is up 1.6 percent as of July

The total CPI rose by 0.6 percent in July, topping our above-consensus forecast of a 0.4 percent increase, and the core CPI was also up by 0.6 percent, far ahead of the 0.2 percent increase we and the consensus expected. On an over-the-year basis, the total CPI is up by 1.0 percent and the core CPI is up 1.6 as of July. There is, however, far less to the outsized increase in the CPI in July than meets the eye, as both the headline CPI and the core CPI were, well, inflated, by sizable increases in prices of apparel and used motor vehicles, the latter of which falls under the heading of careful what you wish for, or at least what you forecast. Prices for used motor vehicles have been rising strongly in recent months, reflecting stronger demand and dwindling inventories, but not only has the CPI data not picked this up, the CPI data showed prices for used vehicles falling in April, May, and June. We noted this in our weekly *Economic Preview*, and also noted that while our forecast of the July CPI included a hefty increase in used vehicle prices, we didn't necessarily think such an increase would actually turn up in the CPI data. As it turns out, our forecast looks downright svelte compared to the 2.3 percent increase reported by BLS. That, along with a 1.1 percent increase in apparel prices, more than offset softness elsewhere in the data to push the overall and core indexes higher. It is worth noting that both of these series recently underwent changes in the methodology used to estimate them, and ever since have been much more noise than signal, and, as the July data illustrate, that noise can at times be sufficiently loud as to drown out the rest of the data. As such, the July CPI data do not really change the underlying point, which is that inflation pressures remain muted, which will likely be the case for some time to come.

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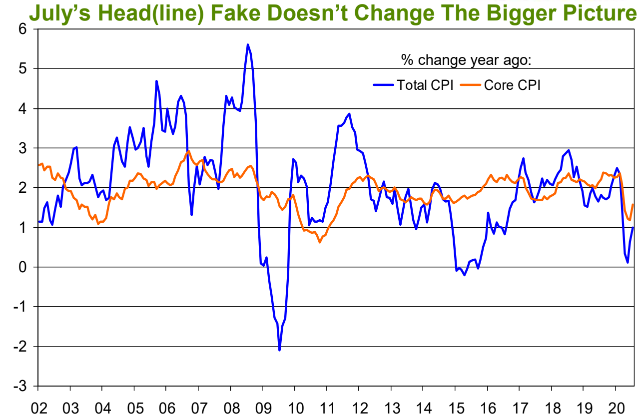
July's Head(line) Fake Doesn't Change The Bigger Picture



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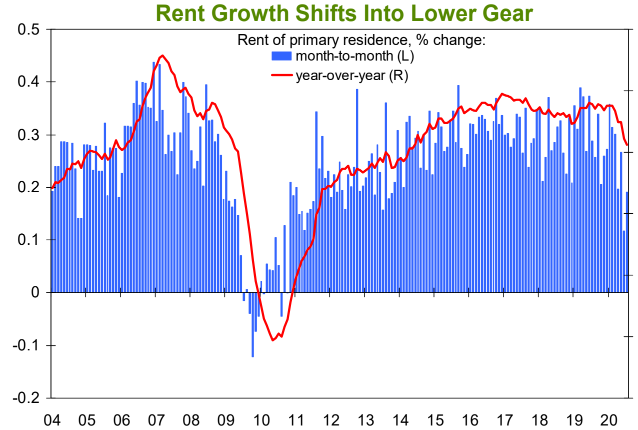
Rent Growth Shifts Into Lower Gear



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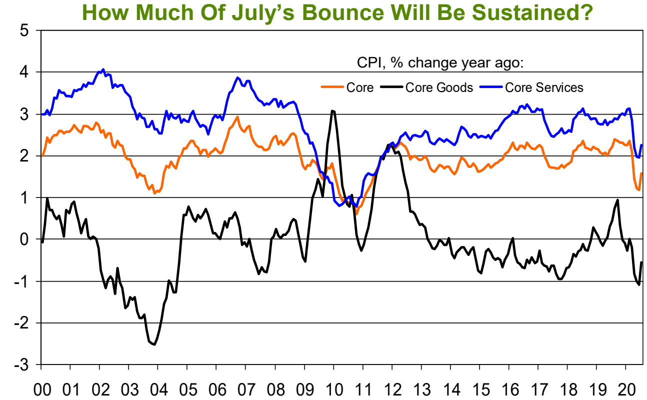
How Much Of July's Bounce Will Be Sustained?



Retail gasoline prices were up by 5.6 percent on a seasonally adjusted basis in July, which mainly reflects pass-through of higher crude oil prices, though the increase in unadjusted prices was a bit smaller. The overall energy index was up by 5.1 percent in July but is still down 11.2 percent year-on-year. After a three-month run of rapid increases that left the year-on-year increase at a nearly nine-year high, food prices retreated in July, with the overall food index down by 0.4 percent. This masks what are, at least to us, surprises in the underlying components. Prices for food consumed at home fell by 1.1 percent in July, the largest monthly decline since February 1953, while prices for food consumed away from home rose by 0.5 percent. Grocery store prices rose sharply – up by 2.6 percent in April – in the wake of the broad based shutdowns that began in mid-March, and it could be that the July data simply reflect the unwinding of some of those increases, particularly with restaurants having opened back up, at least for a time. Prices for food consumed away from home began to firm in May and notched even larger increases in June and July. Given recent restrictions imposed in many states, it will be interesting to see whether, or to what extent, these firmer prices carried into August.

As noted above, prices for used motor vehicles were up by 2.3 percent in July, while prices for new vehicles rose by 0.8 percent. In both cases, strong demand and limited inventories have supported pricing. Still, the July CPI data on used vehicle prices likely reflect some degree of payback for the declines reported over the prior three months and data for subsequent months should show smaller increases. Airfare prices were up by 5.4 percent in July, while lodging prices were up by 1.2 percent. These increases coincide with early, and tentative, increases in demand, and gains of these magnitudes are unlikely to be sustained in the months ahead. After June saw the smallest monthly increase since October 2010, primary rents were up by 0.2 percent in July, but this is nonetheless well below the pre-pandemic run rate. With the high degree of labor market slack likely to be pared down only slowly and the largest backlog of under-construction multi-family units since the early 1970s, rent growth may remain muted for some time to come.

Though the July headline CPI numbers are surprising, the sizable jumps in a relatively small number of series won't likely be sustained. Overall inflation pressures remain muted, and it will be some time before inflation is once again on the FOMC's radar.

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