ECONOMIC UPDATE

REGIONS

July 11, 2019

June Consumer Price Index: Noisy Data Won't Sway The FOMC

- The total CPI rose by 0.1 percent (0.059 percent unrounded) in June; the core CPI rose by 0.3 percent (0.294 percent unrounded)
- On a year-over-year basis, the total CPI was up 1.6 percent and the core CPI was up 2.1 percent in June

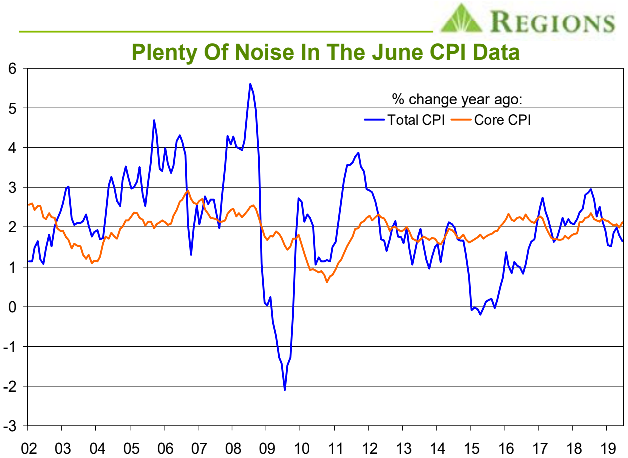
The total CPI rose by 0.1 percent in June while the core CPI was up 0.3 percent, each one-tenth higher than we and the consensus expected. On an over-the-year basis, the total CPI is up 1.6 percent and the core CPI is up 2.1 percent. The June CPI data, however, should be taken with a sizable grain of salt, as the reported increases in apparel prices and prices for used motor vehicles combined to add one-tenth of a point to the change in the core CPI. Keep in mind that recent changes in methodology in each of these series have been followed by significantly greater volatility in the month-to-month data which, as is evident in the June data, can be sufficient to move the needle on the core CPI. This is yet another reason why the PCE Deflator is a more meaningful measure of inflation. That said, aside from areas such as medical care and restaurants, where there are clear signs of firmer prices, inflation pressures remain fairly tame, and that core CPI inflation topped 2.0 percent in June won't change anything for the FOMC at this month's meeting.

The overall energy index fell by 2.3 percent in June, leaving it down 3.4 percent year-on-year. On a not seasonally adjusted basis, retail gasoline prices fell by 4.9 percent, a far larger decline than the seasonal adjustment factors were set for. This left gasoline prices down 3.6 percent on a seasonally adjusted basis in June and down 5.4 percent on an over-the-year basis. Prices for household energy services, i.e., electricity and residential gas service, were down 0.7 percent in June. The overall index of food prices was unchanged in June, with prices for food consumed at home down by 0.2 percent and prices for food consumed away from home up 0.3 percent. While prices for food consumed at home have been all over the map in recent months, there has been a fairly steady build in the year-on-year change in prices for food consumed away from home – the 3.1 percent year-on-year increase in June matches April as the largest such increase since February 2015. This steady build is not at all surprising given that restaurant sales have for some time been outperforming total retail sales as discretionary consumer spending remains strong.

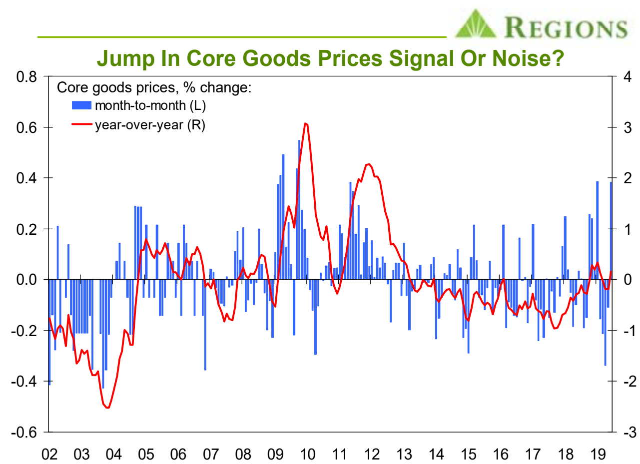
Primary rents were up by 0.4 percent in June, the third such increase in the past four months. This leaves primary rents up 3.9 percent year-on-year, the largest such increase in two years. While rents on single family homes continue to grow at a rapid clip, we remain unconvinced that growth in apartment rents can withstand what will, at some point, be a wave of new units coming on the market as the sizable pipeline of under-construction units begins to clear. The oddly slow pace of completions, however, makes it difficult to get a sense of when greater numbers of units will hit the market. Owners' equivalent rents posted a trend-like 0.3 percent increase in June, good for a year-on-year increase of 3.4 percent. It is interesting that growth in owners' equivalent rents has yet to ease despite what has been a distinct slowdown in the pace of house price appreciation. In any event, with rents accounting for better than 40 percent of the core CPI, there is simply less signaling value in a better than 2.0 percent print on core CPI inflation, and this weighting is one reason core CPI inflation consistently outpaces core PCE inflation.

While core goods prices rose by 0.4 percent in June, yielding an over-the-year increase of 0.2 percent. But, with the reported increases of 1.1 percent in apparel prices and 1.6 percent in prices for used motor vehicles, it is unclear whether the June increase in core goods prices is signal or noise. Though the firming in furniture prices over the past two months is notable, there is little evidence in the CPI data that tariffs are having a broad based and meaningful effect on core goods prices. But, to the extent that the FOMC cutting the Fed funds rate takes some steam out of the U.S. dollar, that would be a source of upward pressure on core goods prices in the months ahead. We remain somewhat perplexed by the behavior of ex-shelter services prices which, as shown in our bottom chart, have lost momentum over the past several months. This is the one segment of the economy in which you would expect there to be greater pricing power, but there is little in the CPI data (or the PCE data for that matter) to support this premise. This helps account for why inflation pressures in the broader economy remain fairly muted.

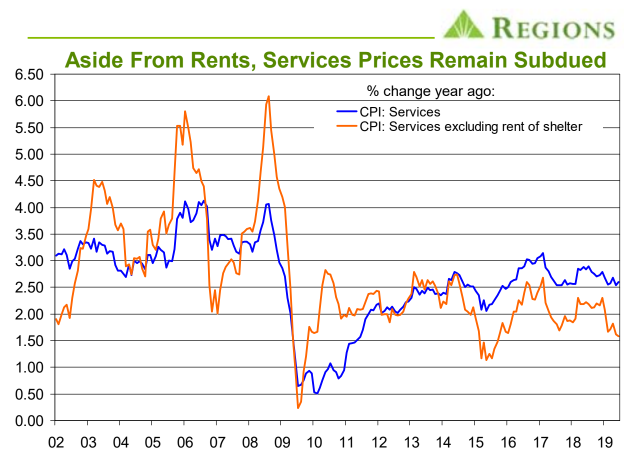
Plenty Of Noise In The June CPI Data



Jump In Core Goods Prices Signal Or Noise?



Aside From Rents, Services Prices Remain Subdued



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com