ECONOMIC UPDATE
REGIONS
August 10, 2022

July Consumer Price Index: The Trip Down Will Likely Be A Long One

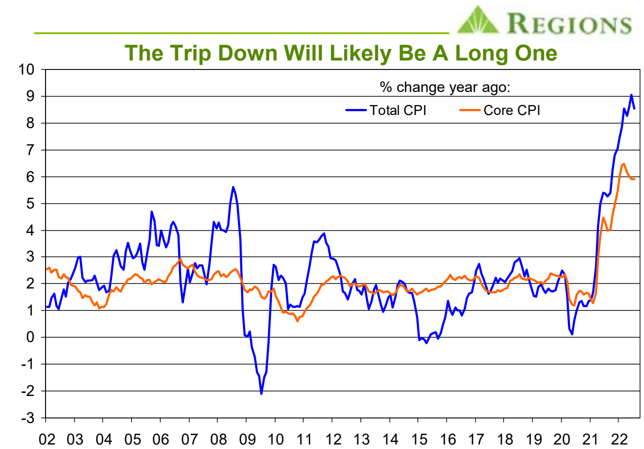
- The total CPI was unchanged in July (down 0.012 percent unrounded); the core CPI rose by 0.3 percent (up 0.313 percent unrounded)
- On a year-over-year basis, the total CPI is up 8.5 percent, and the core CPI is up 5.9 percent as of July

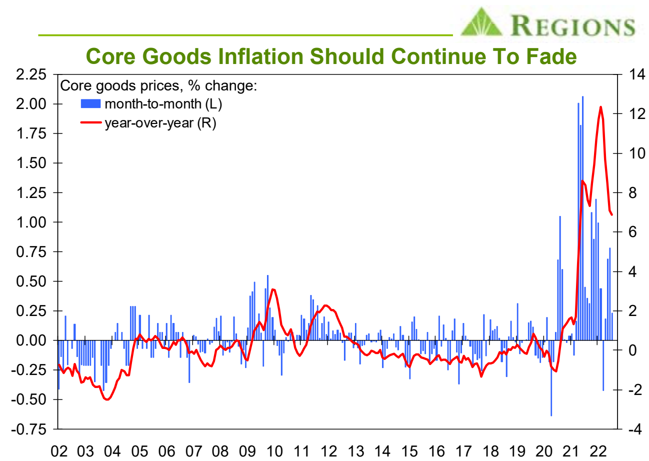
The total CPI was unchanged in July, softer than the 0.3 percent increase we expected, while the core CPI was up 0.3 percent, half the increase we expected. The drag on the total CPI from lower gasoline prices was as we expected, but sharply lower costs for lodging, air fares, and rental car rates were drags on both the total and, to a larger extent, core CPI in July, as was also the case with falling apparel prices. On an over-the-year basis, the total CPI is up 8.5 percent and the core CPI is up 5.9 percent as of July. Continued sharp declines in retail gasoline prices – on a monthly average basis, August will see a better than ten percent decline – will remain a drag on the total CPI, but the core CPI will be a more telling indicator of underlying trends in inflation in the months ahead. We had expected core inflation to pick up pace over the next few months before tailing off later in the year, but that travel-related prices are backing off even as demand for such services remains strong suggests core inflation may be a bit more pliable than we've anticipated. At the same time, energy and commodity markets remain vulnerable to adverse shocks that could trigger another round of price increases, causing headline inflation to reverse course. While the July CPI data are being greeted with considerable enthusiasm by the markets, not of course the 8.5 percent rate of inflation but rather the slowdown in monthly increases, the July data don't change the reality that the FOMC's work is not yet finished, particularly given the extent to which the FOMC sees wage pressures as a source of broader inflation pressures.

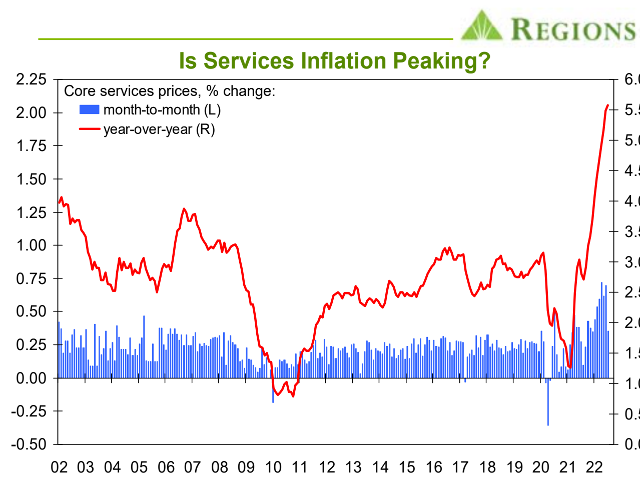
The broad energy index fell by 4.6 percent in July, dragged lower by a 7.7 percent decline in gasoline prices and lower prices for diesel fuel while prices for gas services fell by 3.6 percent. While retail gasoline prices are up 44.0 percent year-on-year, a string of eight straight weekly declines leaves them 18.7 percent off the mid-June peak and the sequential declines are no doubt helping ease some of the stress on household budgets. At least up to a point, as thus far there is little relief from food price inflation. The overall food price index was up 1.1 percent in July, with prices for food consumed at home up 1.3 percent and prices for food consumed away from home up 0.7 percent. On over-the-year prices, the 13.1 percent increase in prices for food consumed at home is the largest such increase since March 1979.

Core goods (non-food, non-energy) prices were up by 0.2 percent in July, yielding an over-the-year increase of 6.9 percent, the smallest such increase since May 2021. Prices for new motor vehicles were up by 0.8 percent but used vehicle prices fell by 0.4 percent. While furniture prices rose, prices for appliances and electronics fell. Apparel prices were down by 0.1 percent. While we've for some time anticipated the deceleration in core goods inflation and won't be surprised if that progresses to outright deflation, we've expected that would be more than offset by more rapid services price inflation. As such, the 0.4 percent increase in core services prices in July was slimmer than we anticipated. Air fares were down by 7.8 percent, lodging rates were down by 2.7 percent (with an even larger decline in hotel rates), and vehicle rental rates were down by 9.5 percent. To be sure, prices in each of these categories are still up substantially compared to a year ago, but it is the sequential declines, which should continue in the months ahead, that will weigh on the monthly changes in the CPI and the PCE Deflator and therefore contribute to the consistent progress the FOMC is looking for. We have flagged rents (primary rents were up 6.3 percent and owners' equivalent rents were up 5.8 percent year-on-year) and medical care costs (up 4.8 percent year-on-year) as sources of sustained upward pressure on core inflation over the next few months, but declines in other components may lead to core services inflation falling short of our expectations.

Continued progress on the inflation front would clearly have implications for how far the FOMC feels they may need to go in raising the Fed funds rate. With headline inflation continuing to run far above their 2.0 percent target, the FOMC isn't close to a stopping point, but they may at least ease off the gas a bit. Still, it's a long way to September 21.







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