ECONOMIC UPDATE

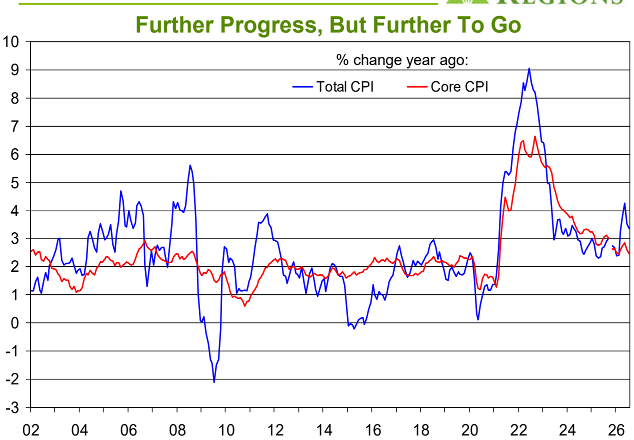
REGIONS

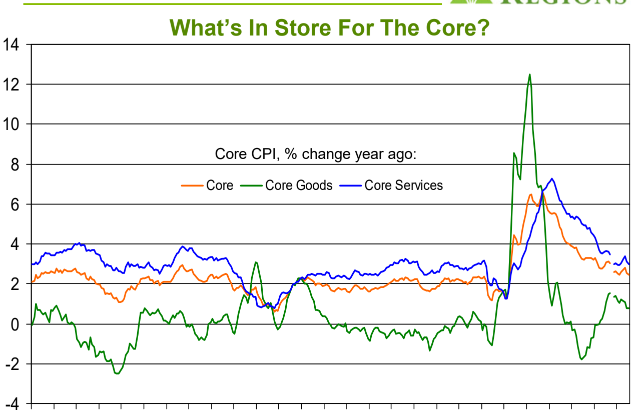
August 12, 2026

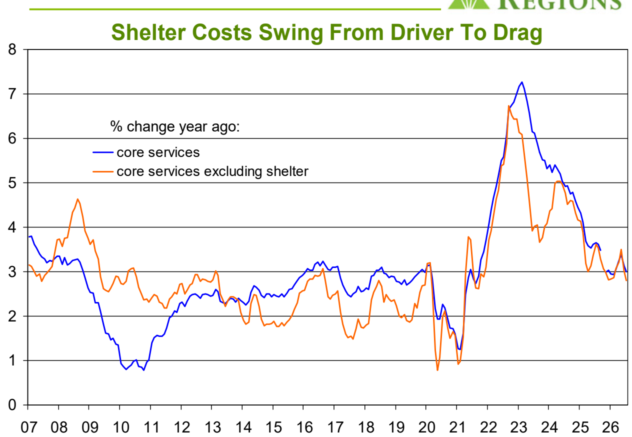
July Consumer Price Index: Further Progress, But Further To Go

- The total CPI rose by 0.1 percent in July (up 0.074 percent unrounded); the core CPI was up by 0.2 percent (up 0.215 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.4 percent and the core CPI is up 2.5 percent as of July

The total CPI was up by 0.1 percent in July with the core CPI up 0.2 percent, each matching the consensus forecast but each one-tenth less than our forecast anticipated. As we noted in our preview of the July data, most forecasts, ours included, were on the border between a 0.1 and a 0.2 percent increase in the total CPI and on the border between a 0.2 and a 0.3 percent increase in the core CPI, one indication of which is the extent to which forecasts of the year-on-year changes, ours included, were bunched around 3.4 percent on the headline and 2.5 percent on the core, and those proved to be on the mark. That said, the monthly changes in both the headline and core CPI were a bit further from those borders than we anticipated, but that doesn't change the broader point which is that while energy once again acted as a drag on the headline CPI, which will be reversed in the August data, the July data show another month of softer core inflation pressures than had been the case over prior months. The year-on-year percentage increase in the core CPI is the smallest such increase since February, and the annualized 3-month change sits at 1.8 percent, the smallest such increase since December. While the moderation in the three-month annualized change may be a bit overstated, there is nothing to suggest the sustained reacceleration in core inflation that many seem to have feared. One important point to keep in mind, however, is that core inflation as measured by the CPI is running considerably below core inflation as measured by the core PCE Deflator (3.3 percent as of June), the FOMC's preferred (at least for now) gauge of price changes, owing to differences in measurement and weighting of the various components. Our view has been, and remains, that rather than a sustained reacceleration, core inflation, however measured, is more likely to remain somewhat sticky in a fairly narrow range above where the FOMC would desire it to be. This leaves the question of whether the factors sustaining above-target core inflation are susceptible to Fed funds rate hikes, and while we do not think so, what matters is whether enough voting FOMC members think funds rate hikes will push core inflation back to their target. The July inflation data – the CPI, the PPI, and the PCE Deflator – won't settle that question.







The overall index of energy prices fell by 1.5 percent in June, with retail gasoline prices down by 2.9 percent on a seasonally adjusted basis. Recall that retail gasoline prices ended June far below the June monthly average, meaning that despite having risen though much of July, prices were still down from June on a monthly average basis. This will reverse with the August data; retail gasoline prices ended July well above the monthly average, reflecting how sharply they rose through the month, meaning gasoline will be a support for the total CPI in the August data. One surprising element of the July data is that electricity rates rose by just 0.1 percent after having fallen by 1.0 percent in June; our forecast looked for a heftier July increase on strong residential and commercial demand. The overall index of food prices rose by 0.1 percent, less than our forecast anticipated owing to prices for food consumed at home having declined by 0.1 percent on sharply lower prices for meats, poultry, fish, and vegetables, with lettuce prices notably declining by 16.4 percent.

Core goods prices were up by 0.2 percent, the largest increase since August, bolstered by sharply higher prices for appliances and electronics and the largest increase in prices for used motor vehicles since October. Still, July saw a second straight 0.8 percent over-the-year increase in core goods prices, well smaller than the annual increases over the prior year. Primary and owners' equivalent rents were each up 0.3 percent in July, as we anticipated and firmer increases than seen in June. Overall, however, services prices were not quite as firm as our forecast anticipated, leaving the overall index of core services prices up 0.2 percent, with a year-on-year increase of 3.0 percent. The index of "supercore services" prices (non-energy services excluding shelter) was also up 0.2 percent and up 2.8 percent over-the-year. The moderation in rent growth is acting as a modest drag on overall services price inflation, more so in the CPI than the PCE Deflator given relative weightings. The 2.8 percent decline in lodging costs was greater than our forecast anticipated, with a much larger decline on a not seasonally adjusted basis than is typical for July. Prices for transportation services and for recreational services came in softer than we anticipated.

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