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# Economic Flash!

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**Katherine Judge (416) 956-6527**

## *US CPI: Less News Than Meets the Eye*

**Summary of the June consumer price report from the Labor Department**

| | Jun | May | Apr | Mar | Feb | Jan | JunNSA YOY% |
|---|---|---|---|---|---|---|---|
| All items | 0.1% | 0.2% | 0.2% | -0.1% | 0.2% | 0.5% | 2.9% |
| ex-food/energy | 0.2% | 0.2% | 0.1% | 0.2% | 0.2% | 0.3% | 2.3% |
| Energy | -0.3% | 0.9% | 1.4% | -2.8% | 0.1% | 3.0% | 12.0% |
| Services | 0.1% | 0.2% | 0.1% | 0.2% | 0.3% | 0.3% | 2.8% |
| ex-energy | 0.2% | 0.3% | 0.2% | 0.3% | 0.2% | 0.3% | 3.1% |
| Housing | 0.0% | 0.2% | 0.3% | 0.3% | 0.3% | 0.2% | 2.8% |
| Fuels & util. | -0.9% | 0.1% | -0.2% | -0.2% | 1.0% | -0.2% | 1.1% |
| Food/beverages | 0.2% | 0.0% | 0.3% | 0.1% | 0.0% | 0.2% | 1.5% |
| Food | 0.2% | 0.0% | 0.3% | 0.1% | 0.0% | 0.2% | 1.4% |
| Apparel | -0.9% | 0.0% | 0.3% | -0.6% | 1.5% | 1.7% | 0.6% |
| Transportation | 0.4% | 0.4% | 0.2% | -1.2% | 0.0% | 1.8% | 6.7% |
| Medical care | 0.4% | 0.2% | 0.1% | 0.4% | -0.1% | 0.4% | 2.5% |
| Recreation | 0.2% | 0.0% | -0.4% | 0.0% | 0.0% | 0.0% | 0.5% |
| Education, comm. | 0.2% | 0.4% | 0.0% | -0.2% | -0.2% | 0.1% | 0.8% |
| Pers. computers | -0.7% | 0.2% | -0.2% | 0.1% | -1.2% | 0.4% | -3.7% |
| Other good, serv | -0.1% | 0.1% | 0.8% | 0.2% | 0.2% | 0.4% | 2.2% |
| Tobacco | -0.4% | 0.4% | 1.3% | -0.2% | 0.1% | 0.3% | 3.0% |
| Commodities | 0.1% | 0.2% | 0.4% | -0.6% | -0.1% | 1.0% | 2.9% |
| ex-food/bev. | 0.1% | 0.2% | 0.4% | -1.0% | -0.1% | 1.4% | 3.8% |
| ex-food/energy | 0.0% | -0.1% | -0.1% | -0.1% | 0.1% | 0.4% | -0.2% |

*Source: Bloomberg*

- Annual inflation came within a hair of 3%, but June did little to contribute to that picture. So there's less news than meets the eye in the 2.9% headline twelve-month rate, which captures the run-up in gasoline prices. Indeed, the trend-like 0.2% advance in core prices should leave the Fed's preferred gauge of inflation, core PCE prices, at 2.0%. That shouldn't sway the Fed from its gradual tightening path, including a quarter point hike at their September meeting.
- Headline consumer prices surprised on the soft side in June, advancing by 0.1% m/m, one tick slower than the consensus forecast. The slight miss was due to energy services, with electricity (-1.4% m/m) and utility gas services (-1.7% m/m) exhibiting more weakness than anticipated. However, a softer print falling out of the annual calculation allowed headline inflation to rise to 2.9%, up from 2.8% in May. The upward trend in headline prices this year, which are now tracking at their highest rate since 2012, owes largely to a rise in energy prices.

- After excluding food and energy, core CPI advanced by 0.2% on the month, in line with the consensus forecast. That allowed the annual rate to tick up to 2.3% as expected. Although shelter costs disappointed, with the hotel and motel component posting a record monthly decline (-4.1%), the annual rate of shelter price inflation remains above last year's average at 3.4%. Despite higher energy prices recently, airline fares continued to fall on both a monthly and annual basis, reflecting increased competition from low cost carriers. At the same time, vehicle prices continued their descent on an annual basis, as demand for autos continues to wane from the highs seen in 2017. Apart from those soft readings, this report indicates that price gains are fairly broad based.
- With core inflation still hovering around the Fed's 2.0% target, and monthly gains exhibiting persistent progress, this report confirms that the Fed should continue on its current monetary policy tightening trajectory.
- Non-energy service prices are tracking above 3%, highlighting that the continued moderate pace to inflation outside of energy is concentrated in goods prices, which could be vulnerable to upward pressure should a global trade war continue to escalate. It will be a while before we see the effects of tariffs on CPI as they should translate through from producer prices with a lag and to this point, still only impact a small fraction of the economy. At the same time, there is minimal evidence that a run up in the USD this year has materially held down price growth.

## Implications & Actions

**Re: Economic Forecast** — Core inflation should continue to pick up in the months ahead as the economy eats its way through remaining slack. Today's figures confirm that our current expectation of two more rate hikes over the course of the year is justified as core PCE should remain at the Fed's 2.0% target in June, with the Fed waiting until September to pull the trigger on tighter rates again.

**Re: Markets** — Yields are largely unchanged due to the near-consensus readings while the USD has fallen.