



# Economics Group

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## CPI Momentum Subsides a Touch in June

*Following the largest monthly gain since early 2013, the headline CPI increased a still-solid 0.3 percent in June as gasoline prices provided the predominant lift. Firming consumer inflation is still our base case.*

### Gasoline Prices Lift Headline

Coming off accelerating monthly gains through the first five months of the year, the headline Consumer Price Index (CPI) increased 0.3 percent in June. Despite the solid gain, the year-over-year rate of headline CPI remained steady at 2.1 percent as year-ago comparisons were tougher to hurdle last month.

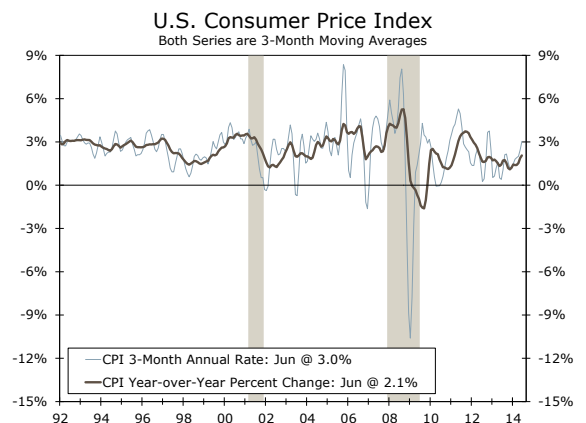
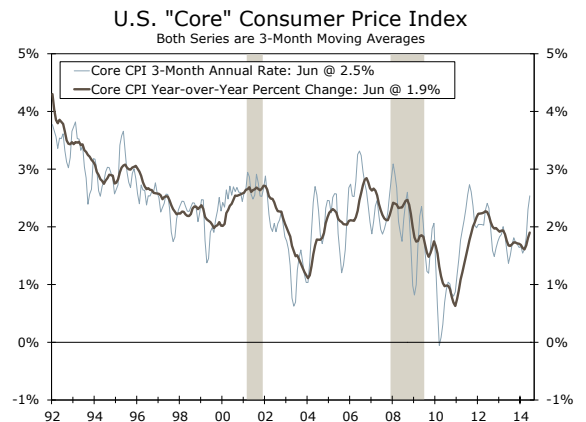
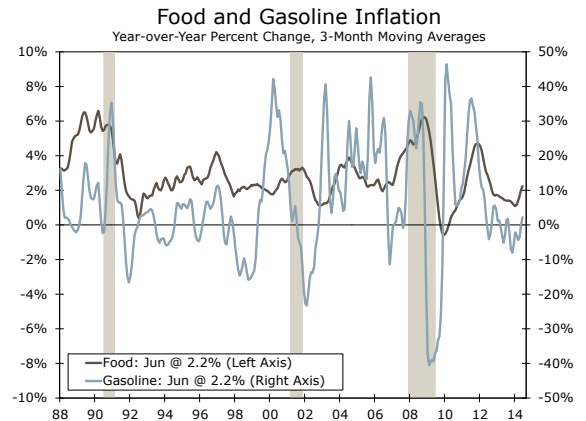
As expected, a substantial rise in energy prices, up 1.6 percent, contributed significantly to the headline's gain. Specifically, gasoline prices jumped 3.3 percent and accounted for two-thirds of the headline's gain. Other energy prices were mixed, with natural gas and fuel oil declining and the electricity index rising on the month. With wage growth sluggish, consumers have clearly felt the purchasing power hit from higher gasoline prices these past few months (top chart). Thankfully, relief is already on the way as retail gasoline prices have fallen 2.6 percent so far in July.

One favorable development in today's report was the moderation seen in consumer food inflation. For the past four months, the consumer food index has averaged a robust 0.4 percent monthly gain, heavily influenced by drought conditions in the Western part of the United States affecting a broad range of food products. In June, the food index rose a more manageable 0.1 percent, with food away from home rising 0.2 percent and food at home remaining unchanged.

Excluding food and energy, price changes also pulled back from its recent above-trend performance, rising just 0.1 percent in June. The gain in the core CPI was held back by notable declines in lodging away from home, new vehicles and used cars & trucks. Shelter costs continue to provide the largest support to core consumer prices, with rent and owners' equivalent rent increasing 0.3 percent. Outside of shelter, notable increases were seen in apparel, tobacco and prescription drugs.

### Firming Outlook Remains in Place

As we look ahead over the second half of the year, today's report is still supportive of our call for firming consumer inflation. The three-month annualized rates of growth for both headline and core CPI are still above their respective year-over-year rates (middle and bottom charts), a reliable signal that upward inflation momentum is still present at the start of the third quarter. On the back of projections for strengthening domestic demand and lessening labor market slack, we expect to see wage inflation pick up from its disappointing post-recession pace. In our opinion, a higher rate of wage inflation is needed to sustain year-over-year rates of consumer inflation above two percent. If our firming inflation outlook unfolds in a gradual manner, the Fed is still on track to end all monthly asset purchases by year's end and implement its first interest rate hike in mid-2015.



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