



# Economics Group

**Sam Bullard, Senior Economist**  
[sam.bullard@wellsfargo.com](mailto:sam.bullard@wellsfargo.com) • (704) 410-3280  
**Sarah Watt House, Economist**  
[sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com) • (704) 410-3282

## Pace of Consumer Inflation Subsides in July

*Pulling back from the accelerated second quarter pace, headline CPI increased a more modest 0.1 percent in July as energy prices declined. Consumer inflation is still poised to pick up in the second half of the year.*

### The Pace of Consumer Inflation Moderates

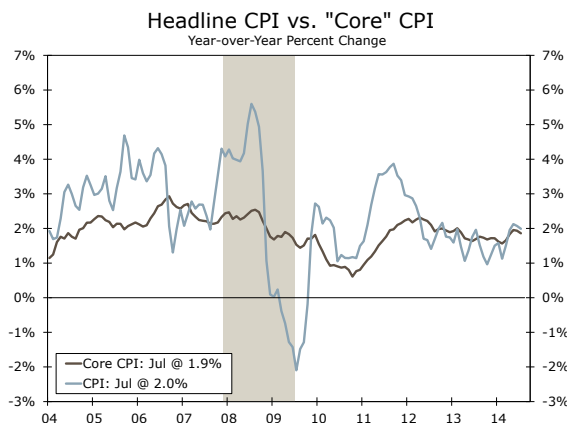
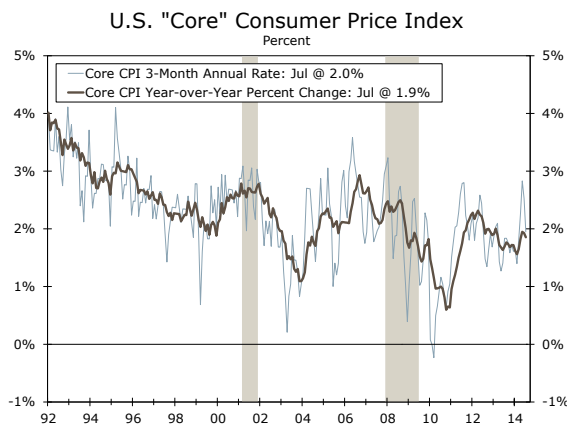
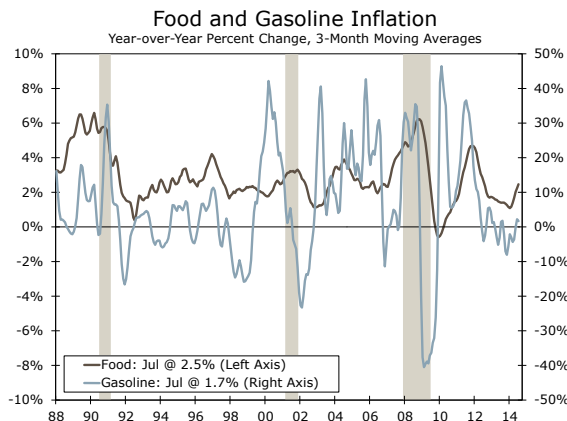
Backing off from the 3.5 percent annualized rate registered in the second quarter, the headline Consumer Price Index (CPI) increased a moderate 0.1 percent in July, suggesting the pace of inflation has downshifted at the start of the third quarter. As expected, energy prices played a significant role in July's dampening. After recording strong gains in May and June, energy prices fell 0.3 percent last month as all components of the index recorded modest declines (gasoline prices down 0.3 percent, electricity down 0.3 percent, fuel oil down 0.7 percent and natural gas down 0.4 percent). Despite increased geopolitical tensions, retail gasoline prices continue to drop in August as ample levels of supply have been more than enough to meet current demand—a favorable development for consumer purchasing power.

Following a brief pause in June, food prices increased a solid 0.4 percent in July, marking the fifth time in the past six months the food index has recorded an increase at least that large. Gains were broad based as food at home rose 0.4 percent and food away from home increased 0.3 percent. Notable grocery store increases were seen in fresh fruits, meats, poultry and fish, as well as cereals & bakery products. Reflective of the 6 percent slide in the CRB foodstuffs index since the end of June, agricultural commodities, on balance, are moderating and signal consumer food price inflation may have peaked for the year.

Excluding food and energy, consumer prices were also tame, edging up only 0.1 percent—half of the pace set in the first half of the year. The shelter index continues to provide steadfast support to core inflation, rising 0.3 percent in July and up 2.9 percent from a year ago. Increases were also seen in apparel, medical care and new vehicles. Offsetting these gains were declines in used cars & trucks, tobacco and a sharp 5.9 percent drop in airline fares. With the three-month annualized rate pulling back towards the year-over-year rate, upward momentum in core inflation has subsided.

### Heading Into Jackson Hole

With both the year-over-year rates of headline and core CPI pulling back to 2.0 and 1.9 percent, respectively, and in combination with the soft performances seen in the July import prices and PPI reports, the threat of problematic inflation rearing its ugly head anytime soon has subsided a bit as Fed officials meet this week in Jackson Hole. The labor market takes center stage at this year's symposium, but we would suspect that inflation, the other primary consideration of U.S. monetary policy, will be discussed. With slack lessening potentially quicker than the Fed currently acknowledges, we continue to expect the pace of consumer inflation to gradually pick up over the next 18 months as GDP and wage growth improve.



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

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