August 14, 2024 by Peter Boockvar

CPI Rundown

Headline and core CPI in July each rose by .2% m/o/m as expected. The y/o/y gains were 2.9% and 3.2% respectively vs 3% and 3.3% in the month before. Energy prices were flat m/o/m after 2% declines in the two prior months and up by 1.1% y/o/y. Food prices grew by .2% m/o/m and 2.2% y/o/y. Differentiating between eating at home vs eating out, the former saw prices up .1% m/o/m and 1.1% y/o/y while the latter saw prices up .2% m/o/m and 4.1% y/o/y and why restaurant traffic is slipping.

On the service side ex energy, prices rose .3% m/o/m and 4.9% and single handedly still holding up overall inflation. Rents continue to be a key factor. OER was up .4% m/o/m and 5.3% y/o/y and Rent of Primary Residence prices were higher by .5% m/o/m and 5.1% y/o/y. As seen with many of the publicly traded multifamily REITS, blended rents are rising more like 2-3%. Either way, while the BLS calculation is still lagging reality, it NEVER fully reflected the rental price spikes either. Medical care prices, another big component of CPI, fell .2% m/o/m, though still up 3.2% y/o/y. That is thanks to a 1% price drop in ‘hospital services’, though they are up 6.1% y/o/y. Health insurance costs fell .4% m/o/m but quirks are still flowing thru this data as prices are stated down .6% y/o/y but we know that is not anywhere close to reality.

Auto insurance remains a big problem, with prices up another 1.2% m/o/m and up by 19% y/o/y. Vehicle maintenance costs did though fall by .3% m/o/m as customers are deferring fixes, as heard from Monro. Prices are still up 4.6% y/o/y. On travel, airline fares fell again, by 1.6% m/o/m and are down 2.8% y/o/y. As heard from the airlines, we have too much capacity currently, but they are quickly remedying that. For hotels, prices rose .2% m/o/m but are down 2.8% y/o/y.

School tuition saw prices up .3% m/o/m and 3% y/o/y, NEVER transitory in this category.

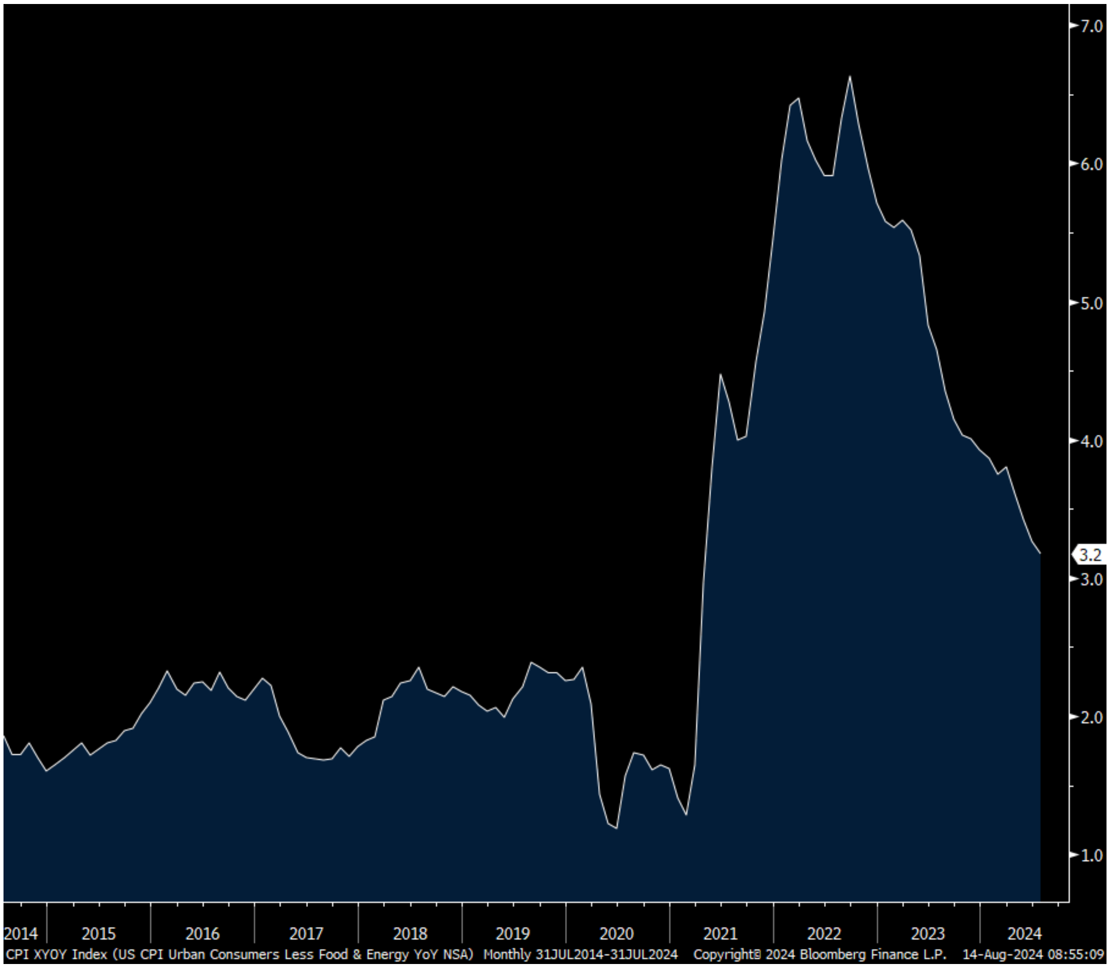
Core goods prices continue to be where most of the disinflation has taken place, as we know. They fell .3% m/o/m and are down 1.9% y/o/y. A 2.3% fall in used car prices was main reason and are lower by 11% y/o/y. New car prices fell too, by .2% m/o/m and down by 1% y/o/y. Apparel prices fell .4% m/o/m and are flattish y/o/y. Prices for home related stuff were up .1% m/o/m but down 2.3% y/o/y. We know all about the lackluster demand for things related to the home.

Bottom line, the pace of inflation deceleration continues but at a glacial pace. And yes, rents aren't fully reflecting reality, but they didn't either when they were rising by double digits and luckily for the Fed, home prices are not included. That said, like a child that covers his/her eyes and thinks they have disappeared, the Fed we know likes to look at PCE instead which is ALWAYS about 100 bps below CPI, and by doing so they believe they are very close to their target.

As for the Fed, I believe it will take further negative data on the labor market before the September meeting in order for them to cut 50 bps, which is very possible. Otherwise, I think it's more likely to be 25 bps. Odds of 50 bps have fallen to 44% from 56% after the PPI report.

The 2 yr yield was at 4% right before yesterday's PPI, was 3.93% right before today's CPI and is now at 3.98%. The 10 yr yield went from 3.89% to 3.83% and is currently at 3.86%.

Core CPI y/o/y



Peter Boockvar
Chief Investment Officer
Bleakley Advisory Group