



Economics Group

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Consumer Prices Rise in June

The CPI rose 0.6% in June, marking the first pick-up in prices after three consecutive monthly declines. The disinflationary impulse from March and April stay-at-home orders is beginning to be reversed.

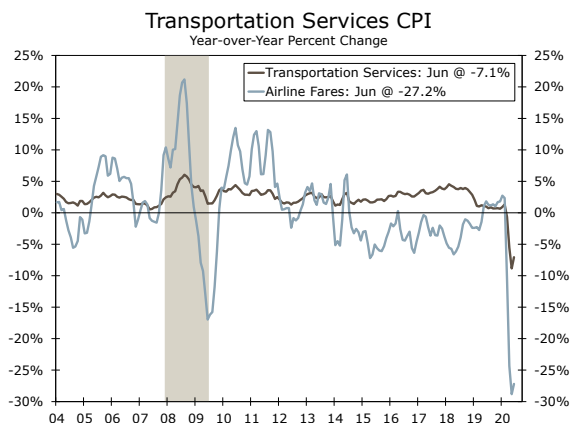
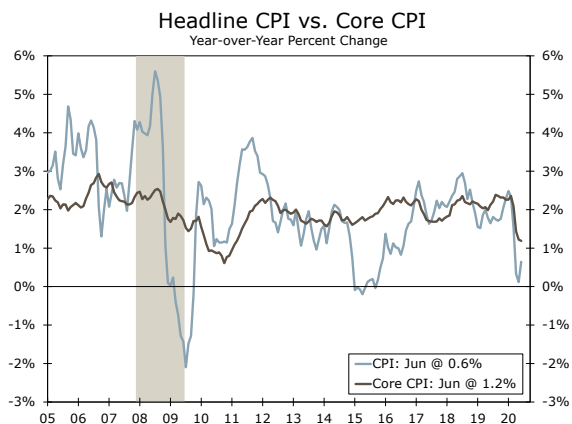
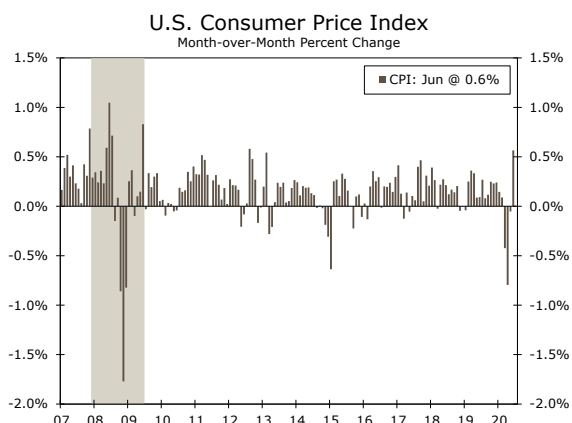
Outlook Uncertain, but Prices Moving Higher

The Consumer Price Index (CPI) rose 0.6% in June. Compared to a year-earlier, prices were also up 0.6%. The June CPI report came in largely as expected and the details of this release suggest the worst of the demand-related price slump is behind us. Accelerating COVID-19 cases, however, do present a serious downside risk.

As expected, the modest rebound in oil prices led to higher energy prices in June. The monthly average price of West Texas Intermediate crude gained about 11% in June, causing motor fuel prices to rise 12.0%. Energy prices lifted the headline, as did food prices, which rose 0.6%. This gain was a touch softer than recent months, however, when stay-at-home orders and meat facility closures caused prices of food at home to rise at its fastest pace in 45 years. Prices of food away from home picked-up (+0.5%) along a likely uptick in restaurant demand amid re-openings.

Stripping out food and energy, core prices rose 0.2% in June and were up 1.2% compared to a year-earlier. The consumption categories responsible for the large declines in prices the prior three months began to reverse in June. Apparel prices rose 1.7%, likely a reflection of the re-opening of some major retail locations and retailers reluctance to further slash prices. The most substantial rebound, however, came in the transportation services component, where prices were cut in recent months as stay-at-home orders depressed mobility. Transportation services prices rebounded 2.1% in June, and were led higher by motor vehicle insurance, car rentals and airfares, which washed a sizeable decline in used auto prices. Motor vehicle insurance prices rose a strong 5.1%, as insurer discounts likely abated amid the lifting of stay-at-home orders and a pick-up in usage. The biggest gain, however, came from car and truck rentals, where prices surged by a record 17.5%. Airfares also saw a solid gain of 2.6% as the number of people passing through TSA security checkpoints nearly doubled in June compared to a month earlier. While this monthly pick-up suggests an uptick in demand for travel, demand remains depressed compared to ‘normal,’ pre-virus levels, with the number of travelers still down about 80% in June compared to a year-earlier. Still, airfare prices likely bottomed in May as air-traveler traffic is starting to recover and decreased capacity among airliners will nudge prices higher in the months ahead. In line with the pick-up in travel related prices, lodging away from home, or hotel rooms, also saw rates rise 1.2%. Despite large swings in this component, the broader shelter category, which represents about 41% of the core CPI has held up throughout the crisis. This is an encouraging sign given massive waves of layoffs have the potential to dramatically hit demand and thus prices.

Many of these preciously depressed categories still have a long-way to go to regain their pre-virus price level. But, overall prices appear to be moving higher. We expect prices to steadily rise, albeit at a modest pace.



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