Consumer Prices Moderate in July, but Remain Elevated

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Headline CPI rose +0.5% last month, down from the +0.9% reading in June, while core CPI was up +0.3%, well below the +0.9% June core advance. On a year-over-year basis, headline CPI held steady at +5.4%, while the core declined from a +4.5% annual pace to +4.3%. This report doesn't do much to answer the question of when inflation will ultimately normalize, but it does ease immediate concerns that general prices will continue to climb. New vehicle prices, energy and shelter costs were the primary drivers of higher prices last month, while used car, airfare and rental car prices dropped. Each of these categories has a unique story to tell, and all are driven in one way or another by pandemic-related factors.

Exactly what's transitory and what's not, is the big question. Looking back *beyond the pandemic* shows core consumer prices are modestly above the 20-year average through January 2020 of +2.0%. Core CPI has risen at a +2.9% annual rate over the past two years and +2.7% over the past three. This bears watching, but supports a patient Fed.

A severe microchip shortage, the cause of elevated auto prices, is expected to persist for at least the remainder of the year. Last week, executives at Ford announced they expect the shortage to last until next summer. Rent prices have been rising for months and are likely to increase further as the year progresses. The Labor Department estimated rent prices had increased +2.5% year-over-year at the end of the second quarter, but real world data from *Realtor.com* indicated a much higher +8.1% annual increase. The nationwide moratorium on evictions was just extended by the CDC once more through October 3rd, but presumably this will end, giving landlords more pricing power going forward.

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The bond market has essentially shrugged off the report as yields inside of 20 years are virtually unchanged from opening levels. Stocks are mixed. There doesn't seem to be anything in the report that would cause the Fed to tighten policy any sooner than they'd planned. It's still wait and see.

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Market Indications as of 10:07 A.M. Central Time

DOW	Up 177 to 35,441 (NEW HIGH)
NASDAQ	Down 60 to 14,728 (HIGH: 14,895)
S&P 500	Up 11 to 4,448 (NEW HIGH)
1-Yr T-bill	current yield 0.08%; opening yield 0.07%
2-Yr T-note	current yield 0.23%; opening yield 0.24%
3-Yr T-note	current yield 0.45%; opening yield 0.48%
5-Yr T-note	current yield 0.81%; opening yield 0.83%
10-Yr T-note	current yield 1.36%; opening yield 1.35%
30-Yr T-bond	current yield 2.02%; opening yield 2.01%