Markets Sell Off on Another Hot Inflation Report

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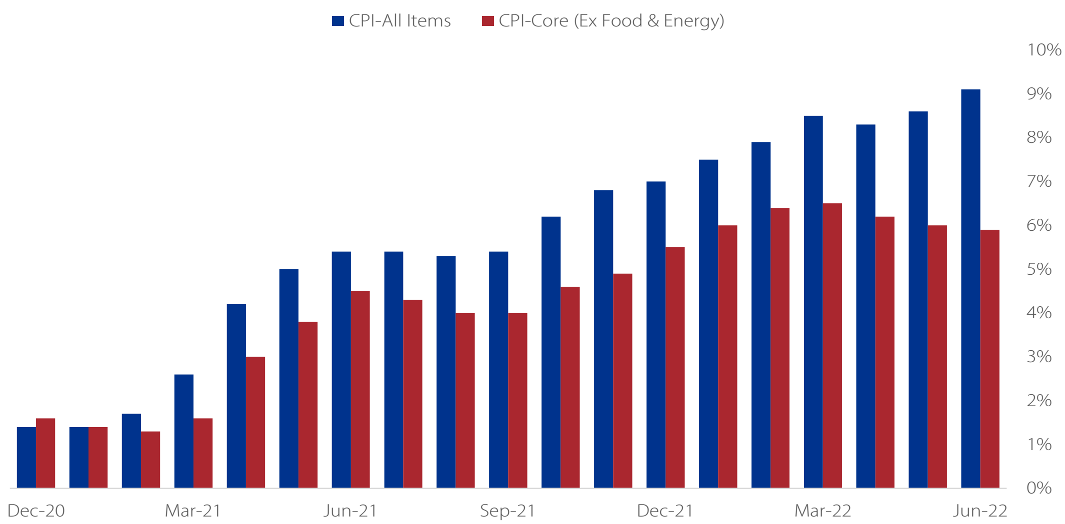
The headline consumer price index (CPI) rose +1.3% month-over-month in June, topping forecasts with the largest single month increase since September 2005. On a year-over-year basis, overall CPI was increasing at a +9.1% pace, well above the +8.8% median forecast and the hottest consumer inflation in more than 41 years.

According to data from the Bureau of Labor Statistics, the June increase was broad-based, with gasoline, food, and shelter costs all rising sharply. The energy index surged +7.5% in last month, contributing almost half of the June increase. Within the energy component, the price of gasoline jumped +11.2%. On an annual basis, energy is up +41.6%, while gas is +60.6% higher. Food prices rose +1.0% for the month and +10.4% year-over-year, the largest annual gain since 1981.

Consumer Price Index (Year-over-Year Percent Change)



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Source: Bureau of Labor Statistics

Used vehicles, a posterchild for the post-pandemic price surge, took a step forward with a +1.6% June increase. For much of 2022, it had appeared as though auto prices were cooling, so this oversized gain is a bit concerning.

Core CPI, which excludes food and energy prices, rose +0.7% (also above forecast) and is now increasing at a +5.9% annual rate. This is one of few positive notes in the report as core CPI has actually decreased on a year-over-year basis in each of the last three months.

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Both stocks and bonds are selling off this morning as the markets anticipate not only a 75 basis point rate hike in two weeks, but also another on September 21st.

Between now and the September FOMC meeting, the markets will see two more CPI reports, as well as the preliminary second quarter GDP reading and the first of two revisions. At that point, it's possible that Q2 GDP is negative, which would suggest the U.S. might have entered recession early. It's still not clear whether Fed officials will have the fortitude to continue applying a major brake on the economy if recession is already asserting itself.

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Also this morning, inflation-adjusted average hourly earnings fell -3.6% on a year-over-year basis in June, the largest decline in the 15-year history of the data series. Consumer capacity to spend is eroding fast *as wages can't keep up with this level of inflation.*

Yesterday, the June survey of the National Federation of Independent Business (NFIB) showed optimism among small business owners at the lowest level since 2013. The percentage of respondents expecting better business conditions over the next six months was the lowest in 48 years of survey history. Inflation was the dominant concern, although continued labor shortages have compounded efforts to meet demand. Half of business owners reported job vacancies they have been unable to fill.

Market Indications as of 9:11 A.M. Central Time

DOW	Down -368 to 30,613 (HIGH: 36,800)
NASDAQ	Down -138 to 11,127 (HIGH: 16,057)
S&P 500	Down -36 to 3,782 (HIGH: 4,797)
1-Yr T-bill	current yield 3.17%; opening yield 3.03%
2-Yr T-note	current yield 3.18%; opening yield 3.05%
3-Yr T-note	current yield 3.20%; opening yield 3.07%
5-Yr T-note	current yield 3.11%; opening yield 3.01%
10-Yr T-note	current yield 3.03%; opening yield 2.96%
30-Yr T-bond	current yield 3.20%; opening yield 3.15%