

Markets Rally as CPI Cools on Lower Energy Prices

The headline consumer price index (CPI) was unchanged in July (*actually down a fractional -0.019%*) following a +1.3% increase in the previous month, while the year-over-year pace of consumer inflation cooled a bit from a 41-year high of +9.1% to +8.5%.

Energy prices, which have been the primary contributor to inflation in 2022, retreated -4.6% in July after a +7.5% June increase. Within the energy index, gasoline dropped -7.7% following a +11.2% rise in June ...but remain +44% higher on an annual basis.

Food prices were still uncomfortably high in July with a +1.1% increase for the month and a +10.9% year-over-year gain. As noted by the *Bureau of Labor Statistics*, the food at home index (groceries) has risen +13.1% over the past 12 months, the largest annual increase since March 1979.

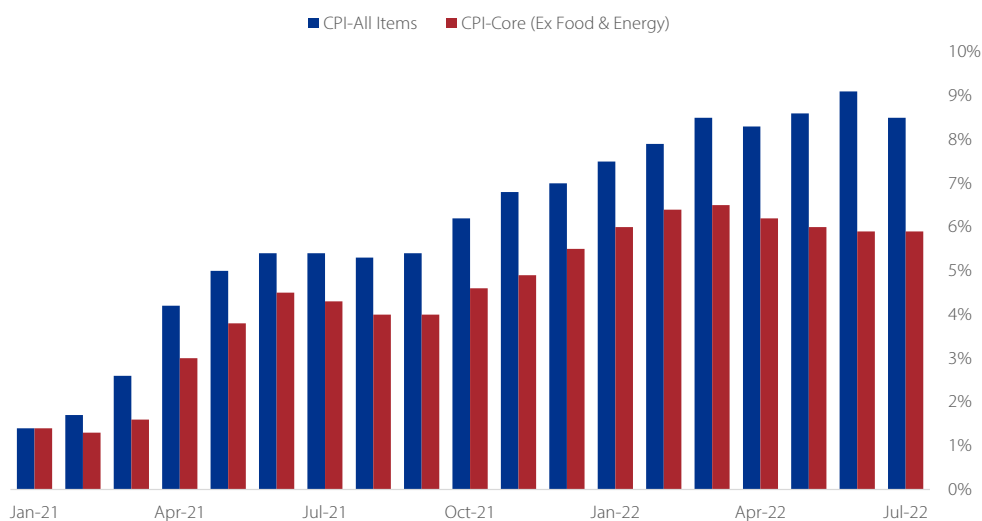
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Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

When food and energy prices are excluded, core CPI rose +0.3% last month, down from +0.7% in June and matching the lowest since August 2021. On a year-over-year basis, core CPI held steady at +5.9%. Shelter costs, the largest contributor to the core index, rose +0.5% following a +0.6% June increase. Despite evidence that housing prices are declining in many parts of the country, rising rental costs are expected to be more persistent.

New vehicle prices rose another +0.6% in July, but used vehicle prices actually declined by -0.4%. Airfares fell -7.8% in July and have now fallen over two straight months, while rental car prices dropped -9.5%. Both travel-related categories are likely to ease further as the summer ends.

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Both stocks and bonds have rallied significantly in early trading. The market thinking here is that the July decline in price pressure will ease the burden on Fed officials, who would act with less urgency at the September FOMC meeting. In fact, the futures market (admittedly volatile) is now indicating a 50 bp increase in September and a total of 100 bps in rate hikes before yearend.

However, there is another CPI release and one more employment report to digest before Fed officials make their decision on September 21st. This morning's report doesn't establish a trend, but the indications of cooling were fairly widespread last month and energy prices continue to slip in August. Inflationary pressure may well have peaked, but as Fed officials have reminded market participants in recent days, we still have a long way to go to get back to the +2.0% target.

The July report brought a much needed sense of relief to jittery markets, but it's still too early for the FOMC to declare victory.

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Market Indications as of 9:01 A.M. Central Time

DOW	Up 508 to 33,282 (HIGH: 36,800)
NASDAQ	Up 262 to 12,756 (HIGH: 16,057)
S&P 500	Up 73 to 4,196 (HIGH: 4,797)
1-Yr T-bill	current yield 3.20%; opening yield 3.26%
2-Yr T-note	current yield 3.11%; opening yield 3.27%
3-Yr T-note	current yield 3.05%; opening yield 3.20%
5-Yr T-note	current yield 2.83%; opening yield 2.97%
10-Yr T-note	current yield 2.71%; opening yield 2.78%
30-Yr T-bond	current yield 2.96%; opening yield 3.00%

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