

Economic Analysis

June CPI Up for the Fifth Month in a Row

Amanda Augustine

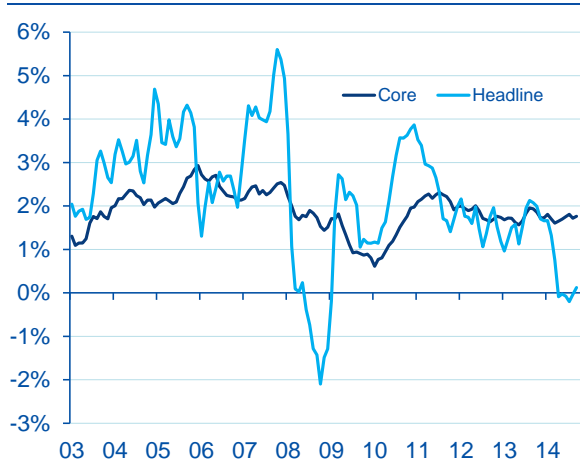
- **Headline CPI was in line with expectations, up 0.3% MoM in June**
- **On a YoY basis, headline CPI hit its highest level since 2014, rising a modest 0.1%**
- **Core CPI rose to 1.8% YoY, adding support to the FOMC for a September rate hike**

Headline CPI inflation in June was positive for the fifth month in a row, gaining 0.3% MoM. On a YoY basis, headline CPI was at its highest level since December 2014, rising 0.1%. Prices of food were up, especially in the meat, poultry, fish and eggs category which rose significantly given the impact of the avian flu on egg prices. Energy prices were also a key driver in the increase in headline CPI as gas prices at the pump were up 3.4% MoM, after surging 10.4% MoM in May.

Core CPI, excluding food and energy, was also in line with expectations, rising 0.2% MoM, despite declines in the costs of used cars and medical care. This gain in the core index was primarily due to the 0.3% MoM hike in the cost of shelter. In particular, the owners' equivalent rent, or the amount a homeowner would earn from renting out his/her property, increased at its fastest monthly pace since 2006. This data is consistent with the latest strength in housing activity, and June's jump in housing starts and building permits suggests that this upward trend in shelter prices will continue for some time. CPI's second largest component, transportation, also gained 0.4% MoM.

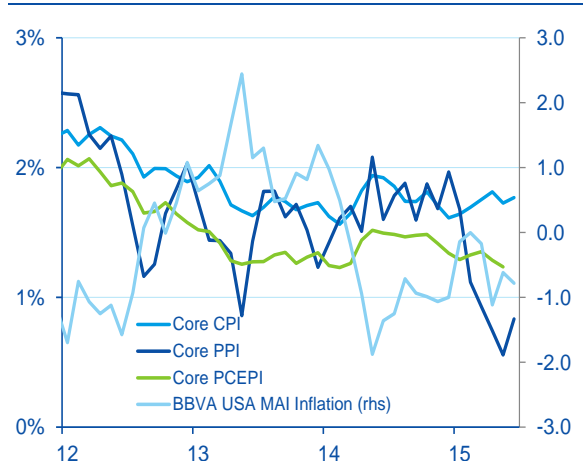
At 1.8% YoY, core CPI inflation is still below the Fed's target; however, the ongoing upward trend should give the FOMC more confidence that prices are at least moving in the right direction. June's CPI data is in line with our expectations for a rate hike in September, especially given rising housing demand and the strengthening labor market.

Chart 1
Core and Headline CPI (YoY % change)



Source: BLS & BBVA Research

Chart 2
Core & BBVA Research USA MAI Inflation (YoY% change & Index)



Source: BLS, BEA & BBVA Research

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