

U.S. Inflation Flash

Headline Inflation Rises on Higher Energy Prices

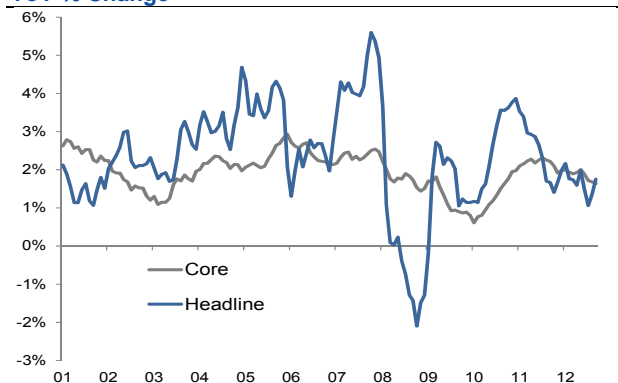
- **Headline inflation increased 0.5% in June after a modest 0.1% gain the month before**
- **Energy prices rose 3.4%, marking the largest monthly increase since February**
- **Core prices, up 0.2%, were driven mostly by medical care services and commodities**

The headline consumer price index for June rose faster than the market was expecting as energy prices weighed in after a rather weak performance in May. Rising 0.5% for the month, the headline inflation increase was driven primarily by the motor fuel component of energy, up 6.1% in June. The remaining energy components were not as strong with electricity prices rising 0.2% and utilities actually falling in response to the fluctuating weather across the country. In total, energy prices increased 3.4%, an acceleration from May's 0.4% rise that came off of two consecutive months of prices declines in March and April. Food inflation returned to its usual 0.2% monthly rate after declining in May for the first time in nearly three years. This is in line with our thinking as staple foods continue to see some inflationary pressures, though the pass-through to consumers has been slower than expected.

Turning toward the core inflation figure, the situation remains similar to prior months. Core prices rose 0.2%, remaining on par with the current median trend between 0.1% and 0.3%. The rise in prices in June was based not only in the service sector but in commodities as well. After two months of flat readings, commodities rose 0.2% on a few select industries. Apparel rose 0.9% while new vehicles saw a rise of 0.3% and medical based commodities jumped 0.5%. Service based prices rose at the same pace in June, 0.2%, and were propelled by medical care services, which accelerated to 0.4% in June after a flat reading the month prior. This is the fastest rise in medical care service prices since June 2012. The remaining components of the services category were mixed. Shelter prices continued to rise, up 0.2% as rents rose and so too did the price of owning a home. The transportation service component fell for the second time this year, down 0.1% after a strong print in May.

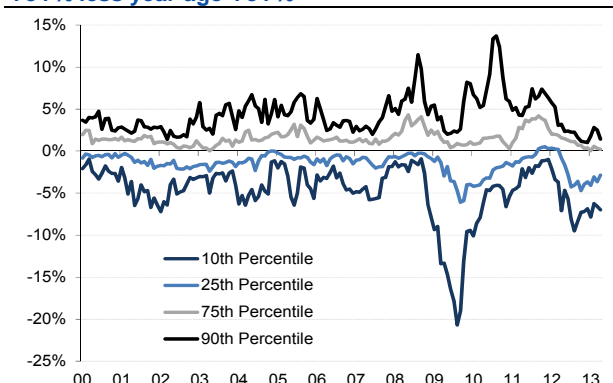
On a YoY basis the headline rate of inflation rose quite quickly from 1.4% in May to 1.8% in June. Core prices, however, decelerated slightly to 1.6% YoY as neither commodities nor services created much inflationary pressure. While the Federal Reserve tends to favor the core PCE measure of inflation, the CPI measure remains in their favor with regard to current policy action and seems to show that it will continue to do so for the time being. In fact, June's CPI report should help ease deflationary concerns that seemed to be building within the FOMC.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
12M YoY Relative Consumer Price Distribution
YoY% less year-ago YoY%



Source: Bureau of Labor Statistics & BBVA Research

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