

U.S. Inflation Flash

Tepid Gain in Inflation Despite Lower Energy Prices

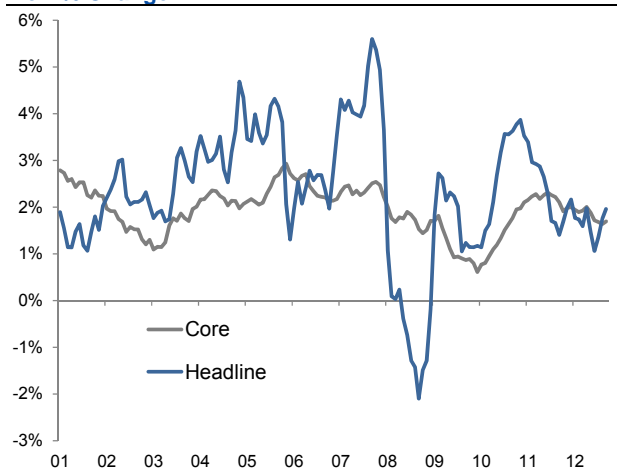
- **Headline inflation rises 0.2% despite deceleration in energy prices**
- **Utility-based prices dropped as gas service prices fell 2.8% and electricity fell 0.3%**
- **Core prices rose moderately on gains in shelter prices and transportation**

The headline consumer price index for July rose a moderate 0.2% on slightly higher energy prices and an extra push from some services. The energy index increased only 0.2% following a 3.4% gain in June due to a boost from energy commodities, specifically gasoline fuels. This comes as somewhat of a surprise given the call for much weaker inflationary pressures as the EIA reported lower average gasoline prices across the U.S. for all grades and types. Nevertheless, gasoline was the primary driver as the remaining energy components, utility gas and electricity services, declined. This marks the second consecutive month of declines for piped gas prices which is relatively uncommon and hasn't occurred since 2011. Food prices also bumped up slightly with the food at home category rising 0.1% and food away, up 0.2%. While the meager food price increase did little to boost YoY price growth, energy prices YoY did tick upward for the second straight month to its highest point since early 2012.

Focusing on core price inflation, the index remained rather quiet which is on par with our expectations. Used car and truck prices fell 0.4% for the third consecutive month, pulling down the commodities component despite strong gains from apparel and medical care commodities. Services remained in the positive, gaining slightly as shelter and medical care prices continue to rise, up 0.2% and 0.1%, respectively. The highest price index increases were in transportation services, however, as motor insurance prices rose 1.3%, its quickest pace since June of 1986. This brought core YoY prices up slightly to 1.7% which is closer to the Fed's target of 2% and subdues the fear of deflation that was spreading earlier in the quarter.

Chart 1

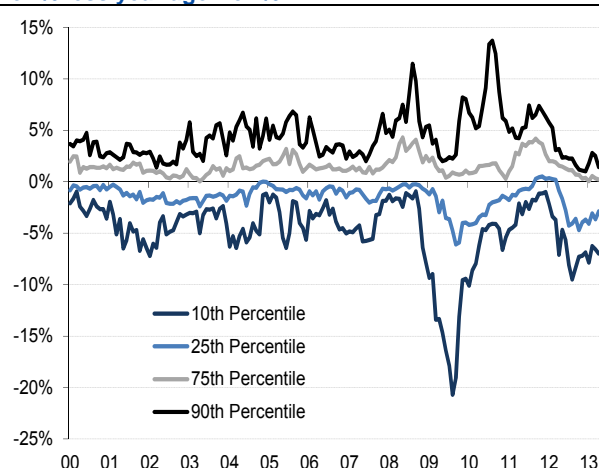
Consumer Price Inflation YoY % Change



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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