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July's Consumer Price Index:

Monthly Core Inflation: Smallest Back-to-Back Increase in Two Years

In Brief:

Takeaways from July's consumer price index:

- Headline inflation (year-over-year) was 3.2% (up from 3.0% in June)
- Core inflation (excludes food and energy) was 4.7% year-over-year, down from 4.8% last month

What does it mean for you?

- Consumer inflation continues to improve, though still elevated

What to watch:

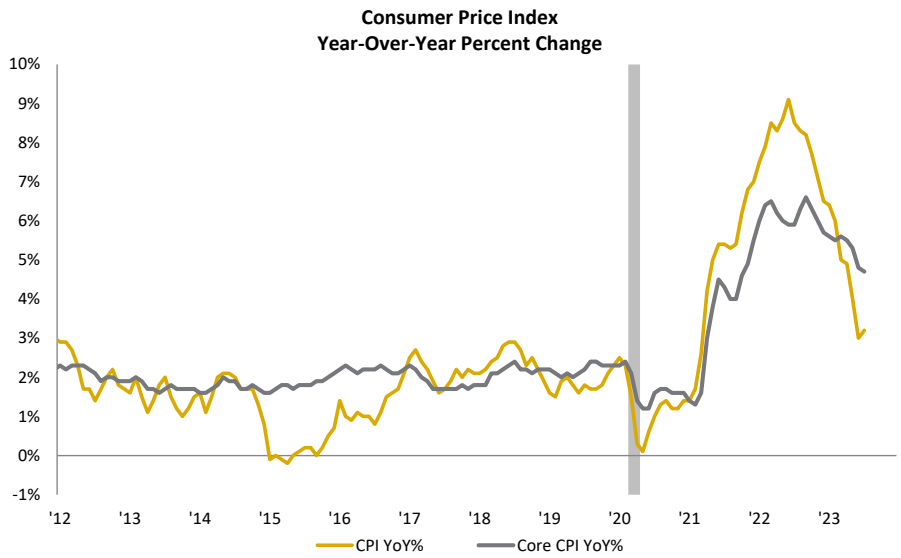
- Watch the Fed's next rate decision on September 20th, which will also include the Fed's summary of economic projections
- The Fed will have the benefit of another month of economic data before their next decision on rates
- The Fed will continue to monitor monthly employment data for signs of loosening in the labor market
- First Citizens Wealth Management will provide an in depth look at markets & the economy on the next Making Sense Market Update. Sign up to have it sent to your inbox.

July's consumer price index (CPI) rose 3.2% year-over-year, the first increase in the annual rate of inflation since June of 2022 (Figure 1). Yet, the month-over-month rate of inflation held at a relatively muted 0.2%. Core inflation, which excludes the impact of food and energy prices, rose 0.2% versus June and 4.7% compared to a year prior. The slight month-over-month increase in core inflation matched the June gain and represents the smallest back-to-back increases in more than two years.

That said, this represents the fifth consecutive month in which annual core inflation has outpaced headline inflation. This is why Federal Reserve (Fed) officials point to still elevated underlying inflation. While improving, inflation is still above the Fed's 2% target. The Federal Open Market Committee will analyze one more CPI report before the next interest rate policy decision on September 20th.

In the details of today's report, airfares declined month-on-month by a dramatic 8.1% for the second month in a row. New and used car prices fell by 0.1% and 1.3%, respectively. Medical care fell 0.2% compared to June. Owners' equivalent rent rose 0.5% and is still 7.7% higher than a year ago. As we have pointed out for several months, market-based rent measures, such as the Zillow rent index, would indicate further deceleration to come.

Figure 1: Consumer Price Index



Source: BLS, Bloomberg

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