USA: Core CPI Below Expectations; Estimating 0.18% for June Core PCE

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BOTTOM LINE: Core CPI decreased by 0.02% in June, below expectations, reflecting broad-based declines across categories. Auto insurance prices declined by 2.0% month-over-month, weighing on the core by 7bp. Wireless phone services prices declined 3.1% month-over-month, reversing a large increase in May and weighing on the core by 5bp. Hotel prices declined by 2.8% month-over-month, likely reflecting payback from the previous boost from the World Cup, weighing on the core by 4bp. Apparel and medical care services prices also declined by 0.6% and 0.1% month-over-month, weighing on the core by 2bp and 1bp, respectively. On the firmer side, software and accessories prices, which have a much larger weight in core PCE than core CPI, increased by 2.2% month-over-month. Based on details in the CPI report, we estimate that the core PCE price index rose 0.18% in June (vs. our expectation of 0.24% before the CPI release), corresponding to a year-over-year rate of +3.33%. Additionally, we expect that the headline PCE price index declined 0.06% in June and increased 3.71% from a year earlier. We estimate that market-based core PCE rose 0.13% in June.

KEY NUMBERS:

CPI (MoM) -0.42% for June vs. GS -0.11%, median forecast -0.1%, prior +0.47%

Core CPI (MoM) -0.02% for June vs. GS +0.17%, median forecast +0.2%, prior +0.21%

CPI (YoY) +3.53% for June vs. GS +3.87%, median forecast +3.8%, prior +4.25%

Core CPI (YoY) +2.59% for June vs. GS +2.76%, median forecast +2.8%, prior +2.85%

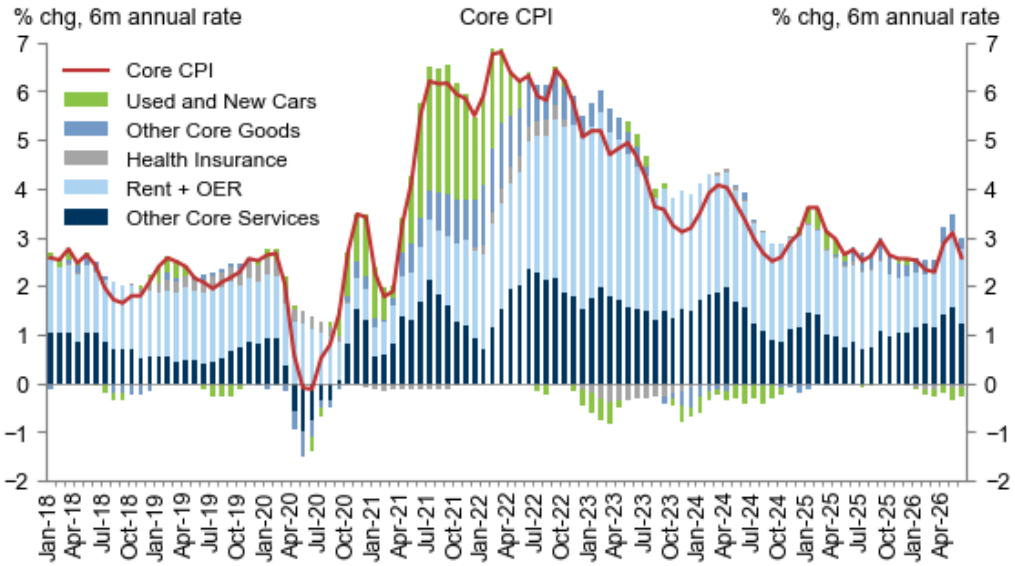
MAIN POINTS:

1. Core CPI decreased by 0.02% in June, below expectations, reflecting broad-based declines across categories. Auto insurance prices declined by 2.0% month-over-month, the second consecutive large monthly decline, weighing on the core by 7bp. Wireless phone services prices declined 3.1% month-over-month, reversing a large increase in May, weighing on the core by 5bp. Hotel prices declined by 2.8% month-over-month, likely reflecting payback from the previous boost from the World Cup, weighing on the core by 4bp. Apparel and medical care services prices also declined by 0.6% and 0.1% month-over-month, weighing on the core by 2bp and 1bp, respectively. On the firmer side, software and accessories prices, which have a much larger weight in core PCE than core CPI, increased by 2.2% month-over-month and their May growth was revised up (+1.5pp to 1.5%). Headline CPI declined by -0.42% month-over-month, also below expectations, reflecting a 5.7% decline in energy prices.

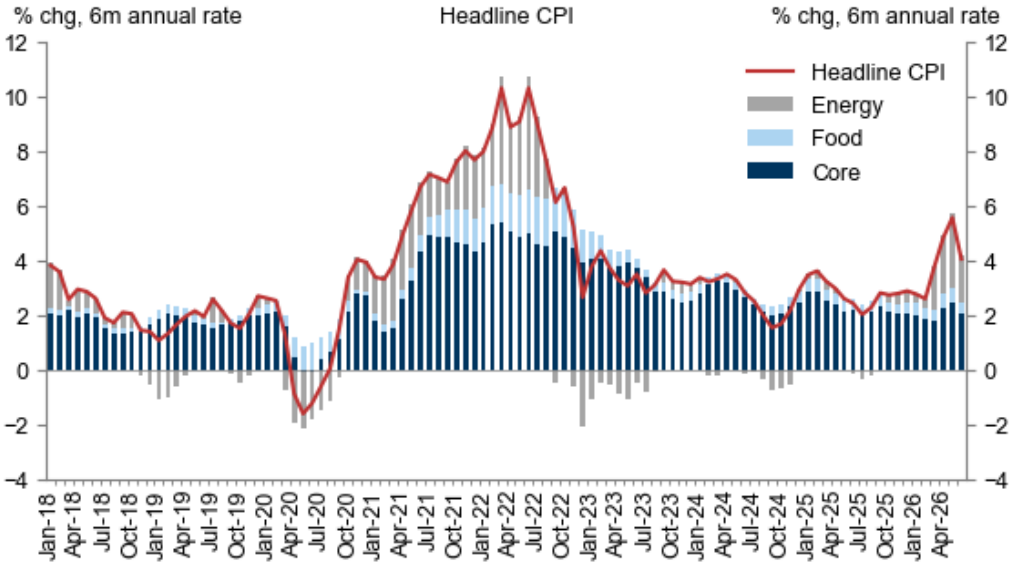
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2. Based on details in the CPI report, we estimate that the core PCE price index rose 0.18% in June (vs. our expectation of 0.24% before the CPI release), corresponding to a year-over-year rate of +3.33%. The gap between core CPI and our estimate of core PCE partly reflects the higher weight on computer software and accessories in PCE, use of different source data for PCE motor vehicle insurance prices, and a large contribution from financial services to core PCE this month. Additionally, we expect that the headline PCE price index declined 0.06% in June and increased 3.71% from a year earlier. We estimate that market-based core PCE rose 0.13% in June.



Source: Goldman Sachs Global Investment Research, Department of Labor



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