US Daily: July CPI Preview

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- We expect a 0.19% increase in July core CPI (vs. +0.2% consensus), corresponding to a year-over-year rate of +2.47% (vs. +2.5% consensus). We expect a 0.05% increase in headline CPI (vs. +0.1% consensus), reflecting lower energy prices. Our forecast is consistent with a larger 0.26% increase in core PCE in July, reflecting a large increase in its portfolio management component.
- We highlight three key component-level trends we expect to see in the report. First, we expect mixed autos inflation, reflecting a 0.5% increase in used car prices, a 0.1% increase in new car prices, and a 0.5% decline in the auto insurance category. Second, we forecast benign readings for the shelter categories—a 0.23% increase in the OER category and a 0.16% increase in the rent category—reflecting the continued slowdown in their underlying trends. Third, we expect mixed travel services categories (airfares: +2.0%; hotels: -1.0%), reflecting signals from alternative price data.
- Looking beyond July, we expect monthly core CPI increases of around 0.2% over the next couple of months, reflecting the continued slowdown in the shelter categories, shrinking contributions from tariff-related price increases, and the reversal of upward pressure on airfares from higher jet fuel prices, though risks are tilted to the upside if disruptions to oil markets and associated oil price increases prove more persistent than expected.

July CPI Preview

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Exhibit 1 provides a component-level summary of our forecast.

Exhibit 1: We Expect a 0.19% Increase in Core CPI in July

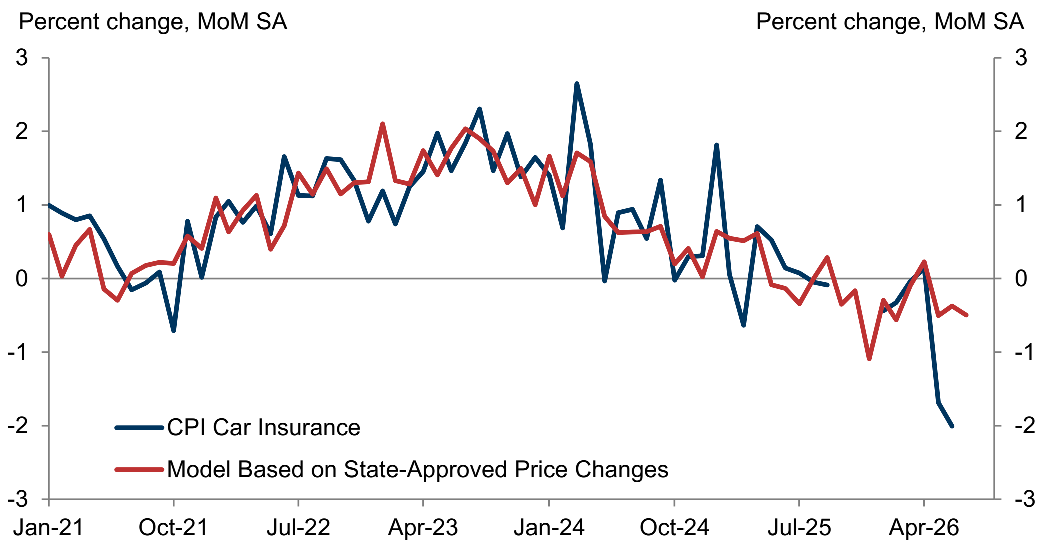
	Core CPI		
	Weight	June, MoM SA	July, MoM SA, GS Forecast
Core	100%	-0.02%	0.19%
Apparel	3%	-0.6%	0.1%
New cars	5%	0.0%	0.1%
Used cars	3%	-0.2%	0.5%
Motor vehicle parts	0%	0.2%	0.2%
Medical care commodities	2%	-0.2%	-0.1%
Tobacco	1%	-0.7%	0.4%
Rent of primary residence	10%	0.15%	0.16%
Lodging away from home	2%	-2.3%	-1.0%
Medical care services	9%	-0.1%	0.2%
Public transportation	2%	0.9%	1.3%
Transportation services ex-public	8%	-0.3%	-0.2%
Pets	1%	0.4%	0.3%
Recreation ex-pets	6%	0.5%	0.3%
Education	3%	0.1%	0.3%
Communication	1%	-1.5%	0.2%
Household furnishings and ops.	5%	0.2%	0.2%
Personal care	3%	0.3%	0.2%
Alcoholic beverages	1%	0.0%	0.2%
Owners' equivalent rent	33%	0.24%	0.23%
Residual (implicit)	2%		0.2%

Source: Department of Labor, Goldman Sachs Global Investment Research

We highlight three key component-level trends that we expect to see in this week’s report:

1. Autos. We expect mixed autos inflation, reflecting a 0.5% increase in used car prices, based on the signal from used car auction prices; a 0.1% increase in new car prices, reflecting roughly unchanged dealer incentives on new vehicle sales; and a 0.5% decline in auto insurance prices, reflecting a decrease in premiums indicated by our online dataset.

Exhibit 2: We Expect a 0.5% Decline in CPI Auto Insurance

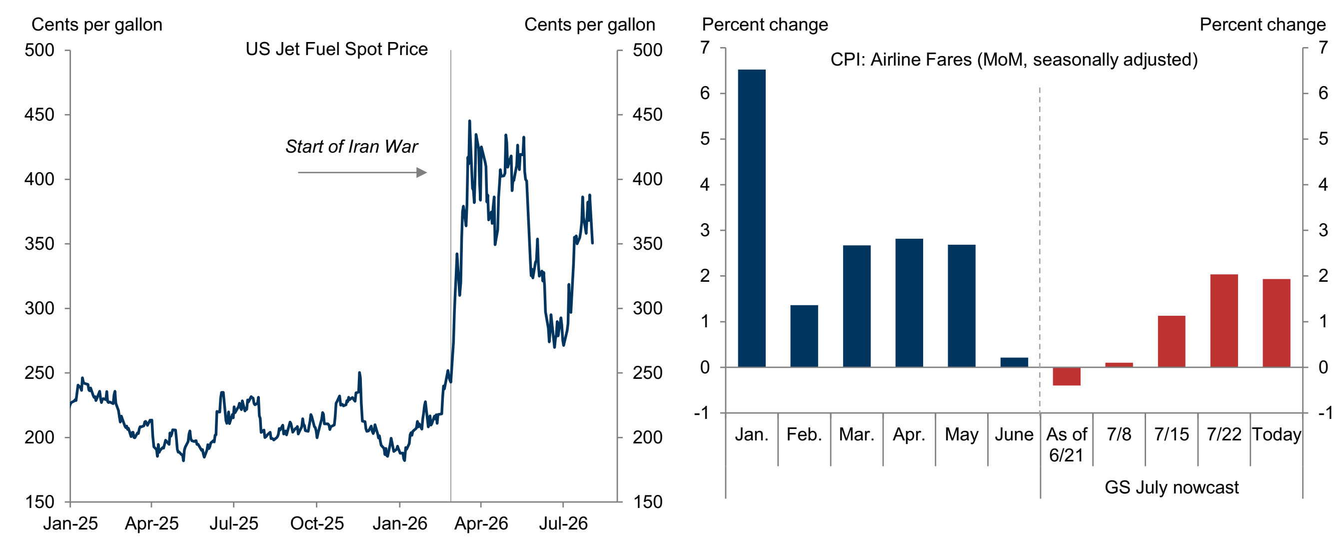


Source: Department of Labor, Goldman Sachs Global Investment Research

2. Shelter. We forecast benign readings for the shelter categories this month, reflecting the continued slowdown in their underlying trends. We expect a 0.23% increase in the OER category and a 0.16% increase in the rent category in July.

3. Travel services. We expect mixed travel services inflation this month. We forecast a 2.0% increase in airfares, reflecting passthrough of the rebound in jet fuel prices across July and the signal from our equity analysts' tracking of online price data.

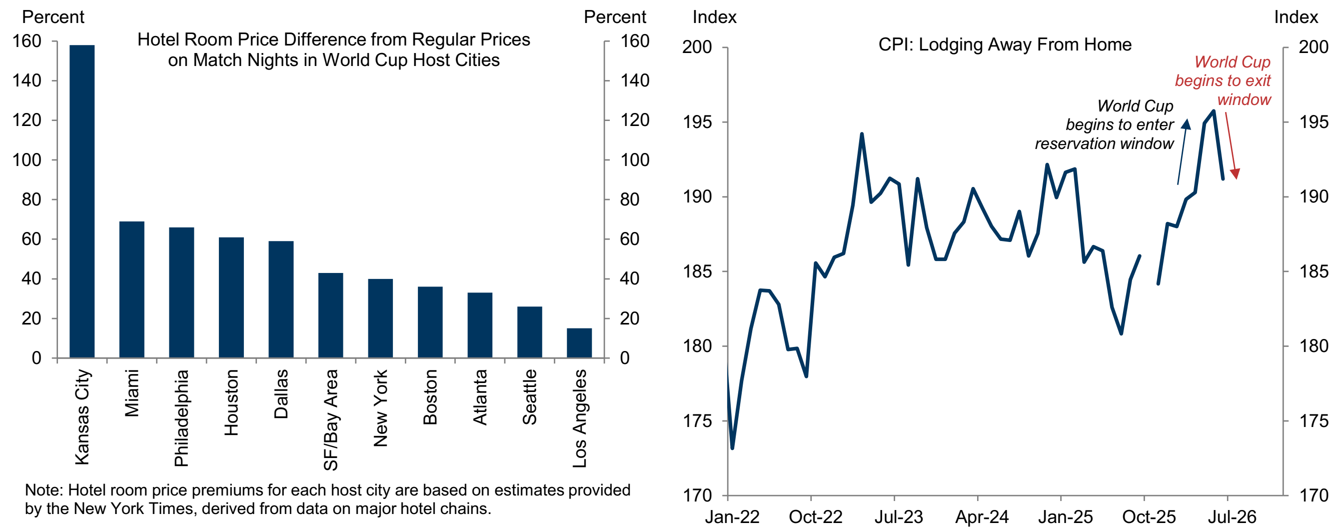
Exhibit 3: The Rebound in Oil Prices Pushed Jet Fuel Prices and Our Tracking of Airfares Higher Over July



Source: EIA, Department of Labor, Goldman Sachs Global Investment Research

We expect a 1.0% decline in hotel prices, reflecting the continued reversal of the boost from the World Cup—which had already begun to show up in the CPI component in last month's report, as prices are measured at the time of booking—and the signal from alternative price data.

Exhibit 4: The World Cup Sharply Boosted Hotel Prices in Host Cities; We Expect a Modest Further Decline in July



Source: New York Times, Department of Labor, Goldman Sachs Global Investment Research

Aside from those components, we also expect slight upward pressure on the communications category from recently announced price increases for consumer electronics, worth 1-2bp to core CPI inflation.

Our forecast is consistent with a larger 0.26% monthly increase in core PCE in July, reflecting a sharp increase in the portfolio management component, itself reflecting Q2 equity price gains, which feed through with a lag. The source data for the portfolio management component will change in the methodological revisions to core PCE at the end of September. The implementation of the new methodology should initially cause the portfolio management component to be revised down in July, lowering July core PCE inflation to 0.21%, because the new approach will initially estimate this component using wage data that are only weakly correlated with equity prices. Later, once the Q3 Quarterly Services Survey becomes available in December, the series will be revised again using data on fees paid, which should reintroduce a strong correlation with equity prices and boost July inflation.

Exhibit 5: Our CPI Forecast Translates to a Higher Core PCE Reading of +0.26% in July

Category	Core CPI		Core PCE	
	Forecast	Weight (%)	Forecast	Weight (%)
Apparel	0.10	3.2	0.10	3.0
New cars	0.10	5.4	0.10	2.1
Used cars	0.50	3.0	0.50	1.2
Motor vehicle parts	0.20	0.5	0.10	0.7
Medical care commodities	-0.10	1.9	-0.10	4.0
Tobacco	0.40	0.6	0.40	0.6
Rent of primary residence	0.16	9.3	0.16	4.1
Lodging away from home	-1.00	1.7	-1.00	1.0
Medical care services	0.22	8.5	0.25	19.1
Public transportation	1.26	1.7	0.70	1.7
Transportation services ex-public	-0.16	7.8	0.20	2.1
Pets	0.30	0.7	0.27	0.6
Recreation ex-pets	0.30	5.9	0.30	8.8
Education	0.25	3.4	0.19	1.9
Communication	0.20	3.5	0.35	1.7
Household furnishings and ops.	0.20	5.3	0.18	3.3
Personal care	0.20	3.2	0.18	2.3
Alcoholic beverages	0.20	1.0	0.20	2.2
Owners' equivalent rent	0.23	32.8	0.23	13.4
Financial services			0.80	9.1
Residual (implicit)	0.20	0.2	0.20	17.0
Core	**0.19**	**100.0**	**0.26**	**100.0**

Source: Department of Labor, Goldman Sachs Global Investment Research

Looking beyond July, we expect monthly core CPI increases of around 0.2% over the next couple of months, reflecting the continued slowdown in the shelter categories, shrinking contributions from tariff-related price increases, and the reversal of upward pressure on airfares from higher jet fuel prices, though risks are tilted to the upside if disruptions to oil markets and associated oil price increases prove more persistent than expected.

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