Weekly Commentary

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Beyond the headline

The main Consumer Price Index (CPI) reading is called the headline number simply because it drives the news. But economists and the Federal Reserve like to dig deeper. That's because of CPI factors in some elements whose prices jump around to the point they don't offer an accurate picture of the long-term inflation trends. In fact, they often cloud it.

Case in point came with last week's release. Headline CPI declined on a year-over-year basis, dipping from 9.1% in June to 8.5% in July. It was enough to create optimism and send the stock market higher. But the number largely reflects the drop in gasoline prices, which are volatile and poised to rise based on volatile events like the war in Ukraine. The better read comes with so-called Core CPI. Energy, food, and other items with the potential for rapidly shifting prices are not part of its calculation. Unfortunately, the news here was not as good as it remained unchanged at 5.9%. That's much higher than the Fed wants to see, so the likelihood it will raise the target range of the fed funds rate by 75 basis-points remains high. There's still more data to come before the Sept. 21 Federal Open Market Committee meeting, but inflation is still far too high to slow the Fed's aggressive campaign to subdue it.

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