Financial Markets This Week

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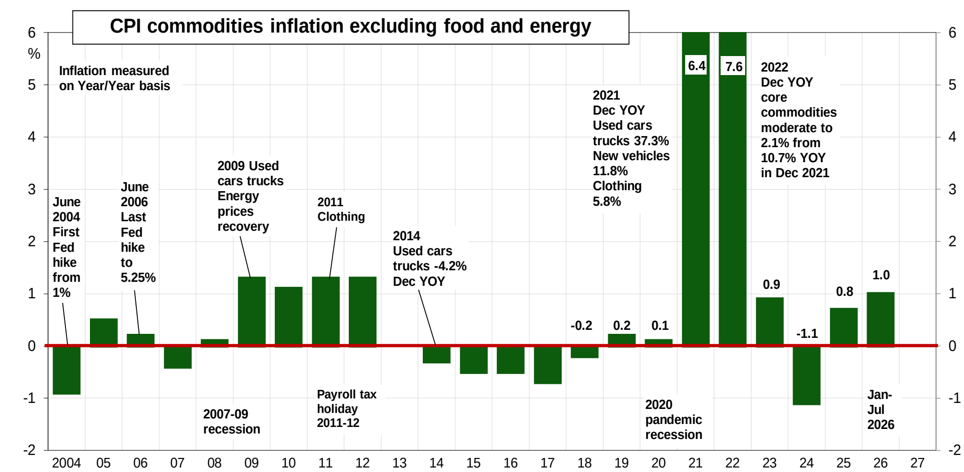
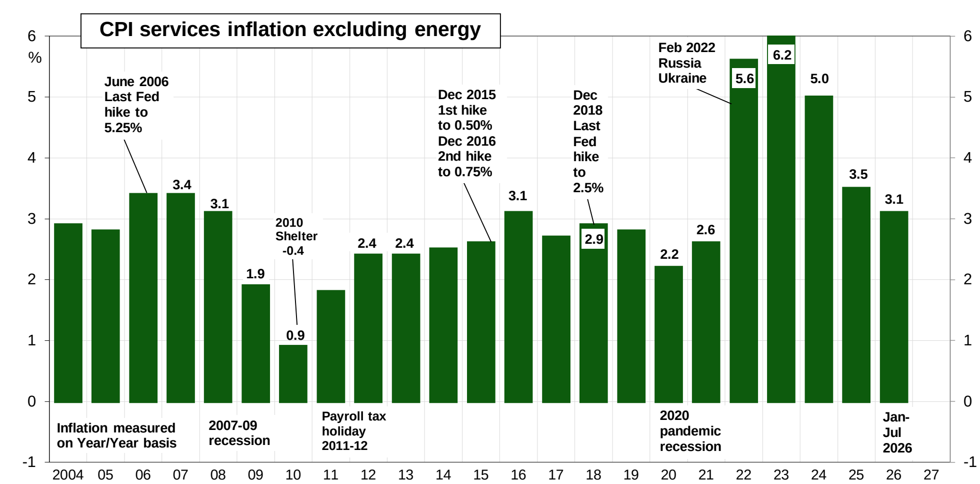
LONG HAUL INFLATION

Dec 25		Monthly Percent Changes			YOY %
Weight	CPI inflation	May 2026	Jun 2026	Jul 2026	Jul 2026
100.0	Total	0.5	-0.4	0.1	3.4
13.698	Food	0.2	0.2	0.1	3.0
8.325	Food at home	0.1	0.2	-0.1	2.7
5.373	Food away from home	0.3	0.2	0.3	3.4
6.383	Energy	3.9	-5.7	-1.5	14.7
2.895	Gasoline	7.0	-9.7	-2.9	24.6
79.919	Ex-food & energy	0.2	0.0	0.2	2.5
3.838	New vehicles	-0.3	0.0	0.1	0.5
2.759	Used cars/trucks	0.1	-0.2	0.4	-1.9
2.368	Clothing	0.3	-0.6	0.1	3.9
1.489	Medical care goods	-0.7	-0.2	-0.6	-2.7
35.625	Shelter	0.3	0.1	0.1	3.2
26.204	Owner equiv. rent	0.3	0.2	0.3	3.2
6.315	Transportation	-0.6	-0.3	0.3	2.9
6.935	Medical care services	0.5	-0.1	0.6	2.7
	Special: Where inflation might come back down to				
60.744	Services ex-energy	0.3	0.0	0.2	3.0
19.176	Commodities (core)	-0.1	-0.1	0.2	0.8

CPI inflation this week. The public's perception in surveys that there is a "cost of living crisis" will never go away. But for those market participants who view the month to month temperature readings from CPI and PCE consumer inflation, the dirty secret is that commodities prices are the key to the overall trend because commodities swing with supply/demand, while services prices are much more steady. The surprise is that commodities did not lift more from the latest external shock from the Trump 2.0 import tariffs where someone somewhere, producers, importers, wholesalers, retail shoppers, have to pay. But commodity prices have barely lifted. Nothing like the Powell Russia Ukraine inflation surge.



What will it take for July's 2.5% core CPI YOY to return to 2.0%? Seems pretty close, but if you must, core commodities are running 1.0% so far in 2026, and it may take some commodity price deflation like from 2014-2018. Services ex-energy are steadier over time, except when the housing bubble burst and shelter costs fell 0.4% in 2010. But services ex-energy are running 3.1% this year, and if the increase was only 2.5%, that could enable Fed officials to hit their target. Keep in mind Warsh says PCE inflation is the target measure; try to forget if you can that June 2026 core PCE inflation is "way up there" at 3.3%.



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