

MARKET SIGHT LINES



Going Deeper on “Sticky” Inflation Components

By Michael O’Keeffe, *Chief Investment Officer*



Last week we [summarized](#) recent inflation reports and the results of the most recent Federal Reserve (Fed) meeting. We observed that inflation is improving, but specific components remain elevated, or “sticky.” For the consumer price index, or CPI, shelter prices, which were up in May by 0.6%, were the largest monthly contributor to the index. Prices for used cars and trucks, up 4.4% in May, were the second largest contributor to the May headline number. But real-time data for these two components are showing improvement, which will take some time to be reflected in the CPI index itself.

In this Sight|Lines, we go a little deeper into some sticky components of CPI and the real-time data that suggests inflationary pressures for these components should ease in the months ahead.

THE TAKEAWAY: REAL-TIME DATA FORETELLS IMPROVEMENT IN INFLATION.

We are fortunate to have access to significant amounts of data on prices and inflation. The Manheim Used Vehicle Value Index tracks used car and truck prices, and Zillow tracks rents. In summary:

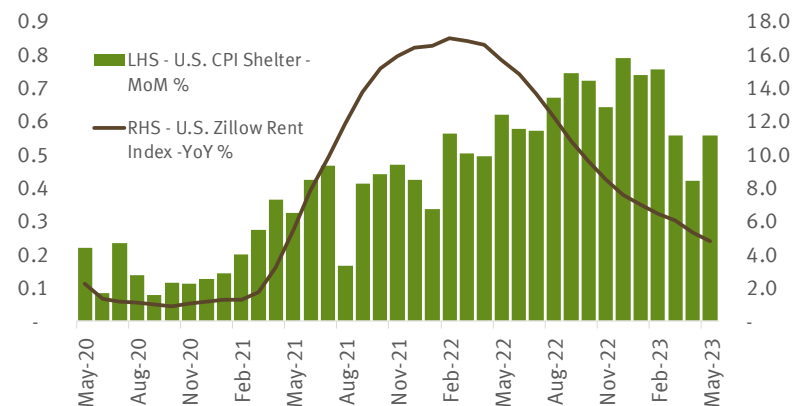
- Used car prices increased by 4.4% in May, reflecting a lag in the Manheim Index that showed prices rose earlier this year. The Manheim Index shows that, in fact, prices have been falling over the last three months. Zillow is reporting that rents are up 4.8% over the last year, after a year-over-year peak of 17.0% reported in February 2022.
- Despite elevated used car and truck and shelter prices in the CPI, this headline reading averaged 0.2% per month over the last three months, quite close to 0.17%, the figure aligned with the Fed’s 2% target.

We expect this real-time data to be reflected in CPI later this year.

IN-DEPTH: INFLATION IS COOLING, BUT SEGMENTS REMAIN STICKY. REAL-TIME DATA FOR THESE STICKY SEGMENTS FORETELL IMPROVEMENT. GRAPHS TELL THE STORY.

With significant inflation data, we’re able to analyze the inflation indexes like CPI each month. In doing so, we can identify areas that have been “sticky” and keeping inflation elevated overall, like shelter prices and

Figure 1. U.S. CPI Shelter vs. U.S. Zillow Rent Index



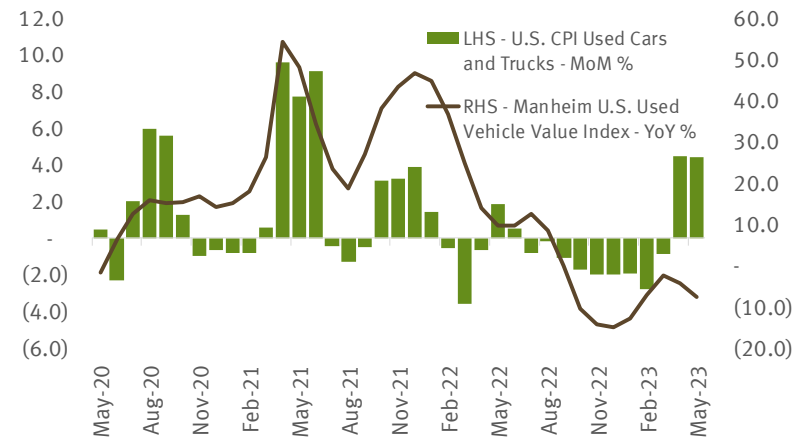
Source: Stifel CIO Office via Bloomberg as of June 22, 2023.

prices for used cars and trucks. But sometimes, these measures are lagged, meaning that it takes time for the real-time data to make its way into the index. That is the case with these two “sticky” components. Going deeper:

- Shelter price increases have remained elevated:
 - The shelter component of CPI rose 0.6% in May and 8.0% over the last year.
 - Zillow reports rents were up 4.8% over the last year, about in line with pre-pandemic levels.
 - Figure 1 shows these figures and how rent increases have been falling.
- Price increases for used cars and trucks have also remained elevated:

- This component rose 4.4% in May.
- The Manheim Index, which captures this data more in real-time, fell 3.2% in the last month and was down 9.4% over the last year.
- Figure 2 shows how real-time prices for used cars and trucks have, in fact, been falling.

Figure 2. U.S. CPI Used Cars and Trucks vs. Manheim Index



Source: Stifel CIO Office via Bloomberg as of June 22, 2023.

- Figure 3, which captures monthly changes in CPI as well as the producer price index (PPI), shows these inflation measures are close to 0.17%, with CPI falling there recently. The significance of 0.17%? This is the monthly equivalent of the Fed’s 2% target.

CONCLUSION

We’ve recently been [discussing](#) recent inflation reports and the results of the most recent Fed meeting. Inflation is improving, but specific components have remained elevated or “sticky.” A quick review of real-time data shows that some key sticky components should be falling, more evidence that inflation appears on a track toward the Fed’s 2% target. The Fed “skipped” a rate hike in June, taking some time to assess if inflation will cool further, but leaving the door open for further hikes. We will be watching this real-time data carefully and looking for evidence of this cooling trend in the headline inflation indexes.

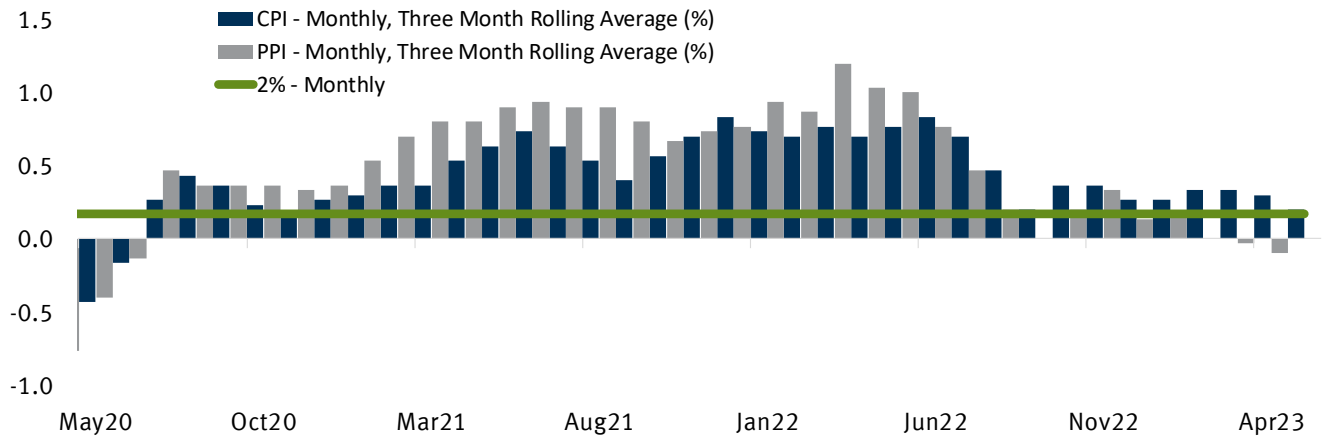
Michael P. O’Keeffe, CFA 

Chief Investment Officer

michael.okeeffe@stifel.com

www.stifelinsights.com

Figure 3. CPI and PPI Index



Source: Stifel CIO Office via Bloomberg as of June 22, 2023.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Past performance is no guarantee of future results. Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

0623.5766958.1