

Economic Indicators

The U.S. CPI

The CPI overview

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

Understanding of the CPI

The BLS collects about 94,000 prices monthly from some 23,000 retail and service establishments. The BLS publishes two CPI indexes each month which are CPI-U and CPI-W. Shelter accounts for 32.39%, the highest proportion in the CPI basket followed by food and beverages with 13.99%.

How is the CPI used?

The CPI is widely used by financial market participants to gauge inflation and by the Federal Reserve to calibrate its monetary policy. Businesses and consumers also use the CPI to make informed economic decisions. Since CPI measures the change in consumers' purchasing power, it is often a key factor in pay negotiations.

Why should we check it at this time?

At the moment, the CPI (%YoY) and CPI (%MoM) are 8.50% and 0%, respectively. According to the BLS report, inflationary pressures remained strong across other components and declining gas and energy prices were offset by increases in the food and shelter indexes. This is the reason why FED are watching CPI closely to appropriately adjust their policy.

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I. The CPI overview

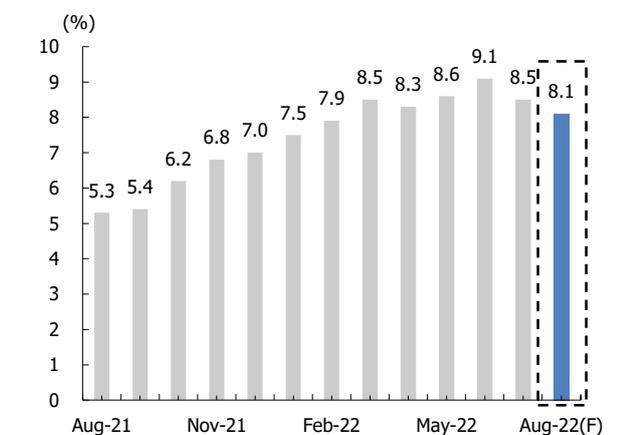
DEFINITION

- The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.
- The core-CPI is an aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy.
- CPI is considered as a lagging indicator, as it is the result of economic growth or decline.
- The CPI is one of the most popular measures of inflation or deflation. The CPI report uses a different survey methodology, prices sample and index weights than the producer price index (PPI), which measures change in the prices received by U.S. producers of goods and services.

WHY IT IS IMPORTANT

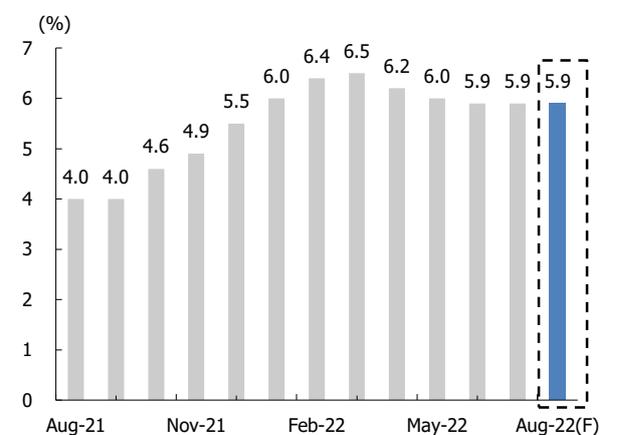
- Inflation is an important indicator of economy's health. Governments and central banks use the CPI and other indices to make economic decisions.
- Market participants will be keeping an eye on analysts' predictions of the data ahead of their release.
- Higher CPI make borrowing money more expensive and is designed to push down consumer spending – and, in turn, inflation. Lower CPI work the other way and is designed to encourage consumer spending, to keep inflation in line with a country's target.

Figure 1. The U.S. CPI in 1 year (%YoY)



Source: Bloomberg, KIS
Note: The August-22 CPI forecast is from market consensus.

Figure 2. The U.S. Core-CPI in 1 year (%YoY)



Source: Bloomberg, KIS
Note: The August-22 Core-CPI is from market consensus.

II. Understanding of the CPI

The BLS collects about 94,000 prices monthly from some 23,000 retail and service establishments.

The BLS publishes two CPI indexes each month.

- The Consumer Price Index for All Urban Consumers (CPI-U) represents the 93% of the U.S. population not living in remote rural areas. It doesn't cover spending by people living in farm households, institutions, or on military bases. CPI-U is the basis of the widely reported CPI numbers that matter to financial markets.
- The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) covers the 29% of U.S. population living in households with income derived predominantly from clerical employment or jobs with an hourly wage. CPI-W is used to adjust Social Security payments as well as other federal benefits and pensions for changes in the cost of living. It also shifts federal income tax brackets to ensure taxpayers aren't subjected to a higher marginal rate as a result of inflation.

The CPI measures prices in several major categories of consumer spending, including:

Table 1. The U.S. CPI weight

Item	Weight (%)
Shelter	32.39
Food and beverages	13.99
Transportation commodities	7.98
Energy	7.54
Medical care	6.99
Education and communication	6.01
Transportation service	5.05
Household furnishings and supplies	3.77
Other goods and services	12.61
Consumer Price Index	100.00

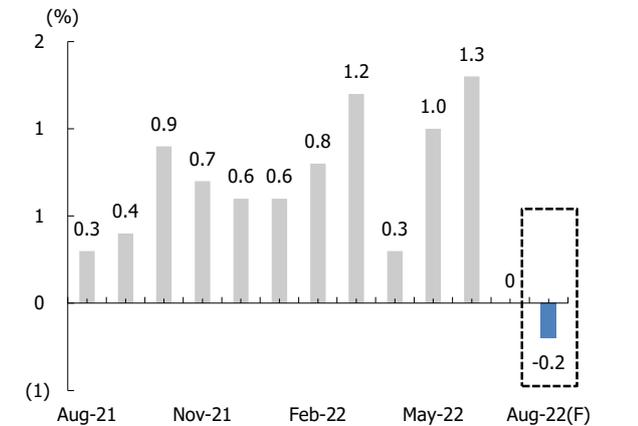
Source: U.S Bureau of Labor Statistic, KIS

The consumer price index uses these two sets of data in its calculations. The formula as follows:

$$CPI = \text{Cost of market basket in a given year} / \text{Cost of market basket in base year} \times 100$$

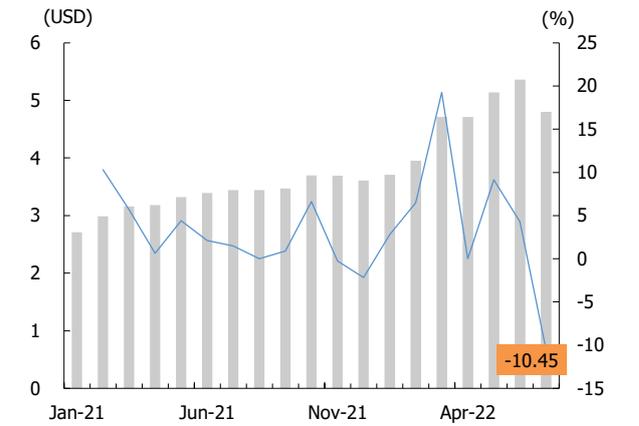
The base year is a benchmark number that's used to measure changes in pricing from the given year. The consumer price index recalculates and updates monthly.

Figure 3. The U.S. CPI in 1 year (%MoM)



Source: Bloomberg, KIS
 Note: The August-22 CPI is from market consensus.

Figure 4. Gasoline price in the U.S



Source: Bloomberg, KIS

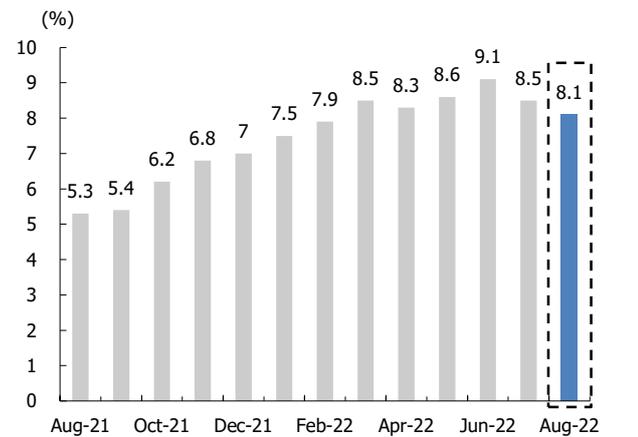
As can be observed that consumer prices in the U.S. remained unchanged in July from June 2022, after rising at a 17-year high rate of 1.30% in the previous period, and beating forecasts of a 0.2% rise.

A downward trend in gasoline prices over more than 50 consecutive days provided some relief to U.S. consumers last month after record energy costs pushed inflation to the highest reading of the cycle in June.

The gasoline price decreased 10.45% in July, marking the largest month-over-month drop in this component of the report since April 2020.

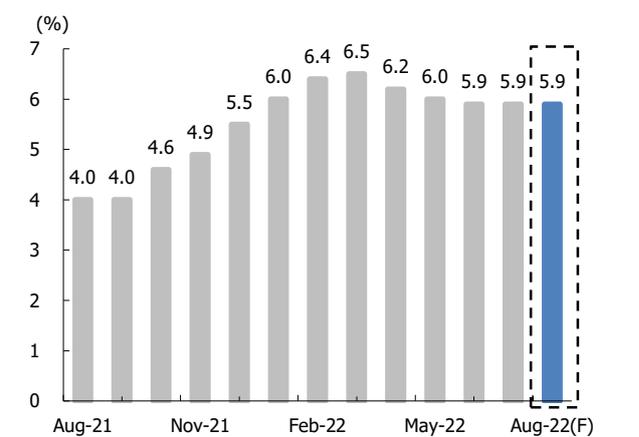
According to the BLS report, inflationary pressures remained strong across other components of the report and declining gas and energy prices were offset by increases in the food and shelter indexes.

Figure 5. The U.S. CPI in 1 year (%YoY)



Source: Bloomberg, KIS
 Note: The August-22 CPI is from market consensus.

Figure 6. The U.S. Core-CPI in 1 year (%YoY)



Source: Bloomberg, KIS

The annual inflation rate in the U.S. decelerated more than expected to 8.50% in July of 2022 from an over 40-year high of 9.10% hit in June, and below market forecasts of 8.70%.

The annual core inflation rate in the U.S. fell at a six-month low of 5.90% in July of 2022, unchanged from the previous month and below market forecasts of 6.10% which showed a slow-down in inflation rate.

In addition, core inflation rate in the United States is expected to be 5.40% by the end of this quarter. In the long-term, the United States core inflation rate is projected to trend around 2.70 percent in 2023 and 1.70 percent in 2024.

III. How is the CPI used?

The CPI is widely used by financial market participants to gauge inflation and by the Federal Reserve to calibrate its monetary policy. Businesses and consumers also use the CPI to make informed economic decisions. Since CPI measures the change in consumers' purchasing power, it is often a key factor in pay negotiations.

The CPI and its components are also used as a deflator for other economic indicators, including retail sales and hourly/weekly earnings, to separate fundamental change from that reflecting change in prices.

As an economic indicator. The CPI is widely used to measure inflation and sometimes viewed as an indicator of the effectiveness of government economic policy. It provides information about price changes in the Nation's economy to government, business, labor, and private citizens and is used by them as a guide to making economic decisions. In addition, the President, Congress, and the Federal Reserve Board use trends in the CPI to aid in formulating fiscal and monetary policies.

As a deflator of other economic series. The CPI and its components are used to adjust other economic series for price changes and to translate these series into inflation-free dollars. Examples of series adjusted by the CPI include retail sales, hourly and weekly earnings, and components of the National Income and Product Accounts.

IV. Why should we check it at this time?

At the moment, the inflation rate and core-inflation of the U.S. in July was 8.50% and 5.90%, respectively. The CPI data indicated a slower annual increase compared with June, as inflationary pressure eased on the fall of gasoline price.

Both figures were improvements over economists' expectations of a 0.2 per cent increase in the CPI on a monthly basis and an 8.70 per cent rise annually —

but mean inflation is still close to 40-year highs.

The headline inflation is still at 8.5 per cent and core inflation at 5.9 per cent, this is not yet the meaningful decline in inflation the Fed is looking for (2.0% - 3.0%).

Investors took an encouraging view of Wednesday's data and priced in smaller interest rate increases from the Fed in next week (U.S time: 4:15 p.m 13th September; VN time: 4:15 a.m 14th September). The central bank is expected to lift rates to 3.4 per cent by year-end, according to futures pricing, down from 3.60 per cent before the release of the report. Bets that the Fed would raise rates by 0.75 percentage points at its September policy meeting also fell.

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