GUGGENHEIM

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Macro Alert

The Inflation Moderation We Expected Should Continue

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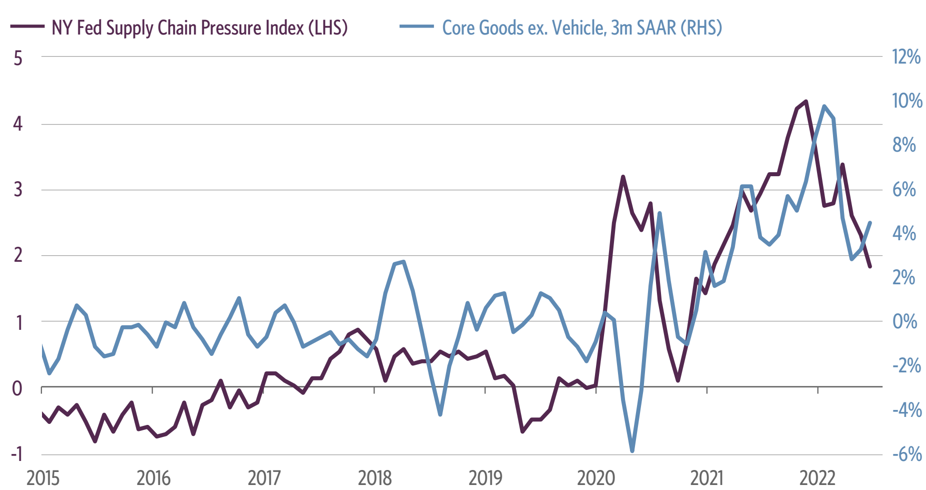
As we expected, Consumer Price Index (CPI) inflation began to moderate in July with the downturn in commodity prices, supply side improvements, and signs of demand destruction in the broader economy. There is still ground to cover to get closer to the Federal Reserve's (Fed) target, but we expect these trends to continue, which should help support the long end of the yield curve.

Both headline and core CPI cooled in July, with headline CPI down 0.2 percent annualized over the month, and core prices rising at a 3.8 percent annualized monthly pace. Falling energy prices drove most of the outright decline in headline CPI, with gasoline prices down 7.7 percent unannualized over the month. Notably, airfares, hotels, and used vehicles also declined. The continued decline in energy prices and high frequency data suggesting more deflation in airfares and used car prices in August should drive another low headline number next month.

Lower inflation was also driven by a broad-based sequential deceleration in core goods inflation excluding vehicles, which moderated to 3.7 percent annualized after rising 7.1 percent in June. Continued supply chain improvement and lower import prices should continue to drive disinflation in this category.

Easing Supply Chain Stress is Helping Goods Inflation Cool

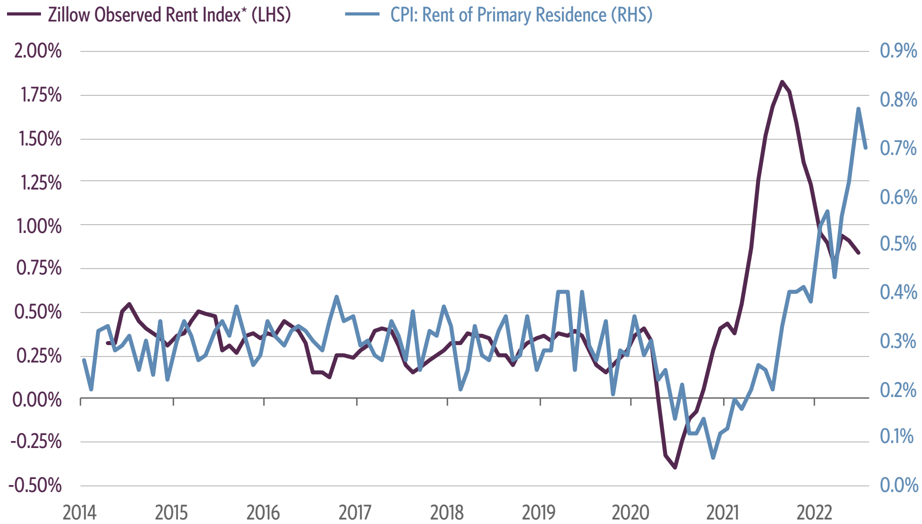


Source: Guggenheim Investments, Bloomberg, Haver Analytics. Data as of 7.31.2022.

An even more important sign for the medium-term outlook was the moderation in core services inflation. Rent inflation remains red hot but cooled down a bit with rent declining from 9.7 percent annualized to 8.8 percent and owners' equivalent rent down from 8.7 percent to 7.9 percent. These two categories alone are still contributing 2.5 percentage points to headline CPI so need to slow much more, but more timely measures of market rents (such as Zillow and Apartment List data) point to more moderation in the months ahead. Recent business surveys such as the ISM Services index also point to more slowing in services inflation.

Slowdown in Market Rents Suggests Moderation in Shelter CPI Inflation

Month-Over-Month % Change



Source: Guggenheim Investments, Haver Analytics. Data as of 7.31.2022. *Note: seasonally adjusted and smoothed by Guggenheim.

Reaching the Fed's inflation target won't happen without wage growth cooling substantially, and the recent data on that front is not as encouraging (e.g., Employment Cost Index, unit labor costs, average hourly earnings). So while the new CPI report will ease fears about runaway inflation, the Fed will still see a need for substantially more tightening until more labor market weakness emerges.