



July CPI inflation continues moderation trend

July CPI inflation continues moderation trend

The July CPI inflation data was released showing overall inflation moderated to 2.9% YoY from 3% the previous month. Core CPI fell to 3.2% YoY from 3.3% the previous month. Both levels were the lowest since early 2021. On a month-on-month basis, inflation accelerated to 0.2% from -0.1% and Core inflation accelerated to 0.2% from 0.1% but these levels matched market expectations.

Even though the data was near market expectations, there was a large amount of variability within the details.

- Shelter has been a focus for the Fed as it has been consistently higher than expected for the past few years. The June data had finally shown a step down in monthly Shelter inflation as it declined to 0.2% MoM after averaging 0.45% the previous 6 months and expectations were for the July data to show a number in the 0.2-0.3% range. However, Shelter came in at 0.4% MoM, indicating there is still some lingering inflation pressures within the housing market. The year-on-year Shelter inflation was 5.1% in July and while it is down from the peaks above 8% last year, it seems to be stabilizing around the 5% level versus an average of around 2-3% before the pandemic.
- Motor Vehicle insurance is still seeing high inflation as it increased 1.2% MoM and 18.5% YoY. Since the start of the pandemic, it has increased nearly 50% and further increases seem likely in the coming months before any possible stabilization. Higher car prices over the previous years, higher costs of repairs, and the added risks of climate change (storms, flooding, wildfires) have all added to auto insurance premiums and these are not likely to reverse.
- There were also areas which showed lower levels of inflation. Medical Care Services had been a strong contributor to inflation after the pandemic but it came in at -0.3% MoM in July, the lowest level for a year. On a year-on-year basis, it came in at 3.3% YoY, which is within the 2-4% pre-pandemic range.
- Used Cars also showed a notable decline in prices as they fell 2.3% MoM and 10.9% YoY. Much of the declines reflect the normalization of very high prices used (and new) cars were reaching after the pandemic. Used car prices are down 16% from the peaks reached in July 2022 although they are still 30% higher than pre-pandemic levels so further declines are possible.
- Food inflation seems to be stabilizing as it came in at 2.2% YoY in July, essentially the same YoY level it has been since February this year. While the current inflation levels have moderated, overall food prices are still 27% higher than they were pre-pandemic.

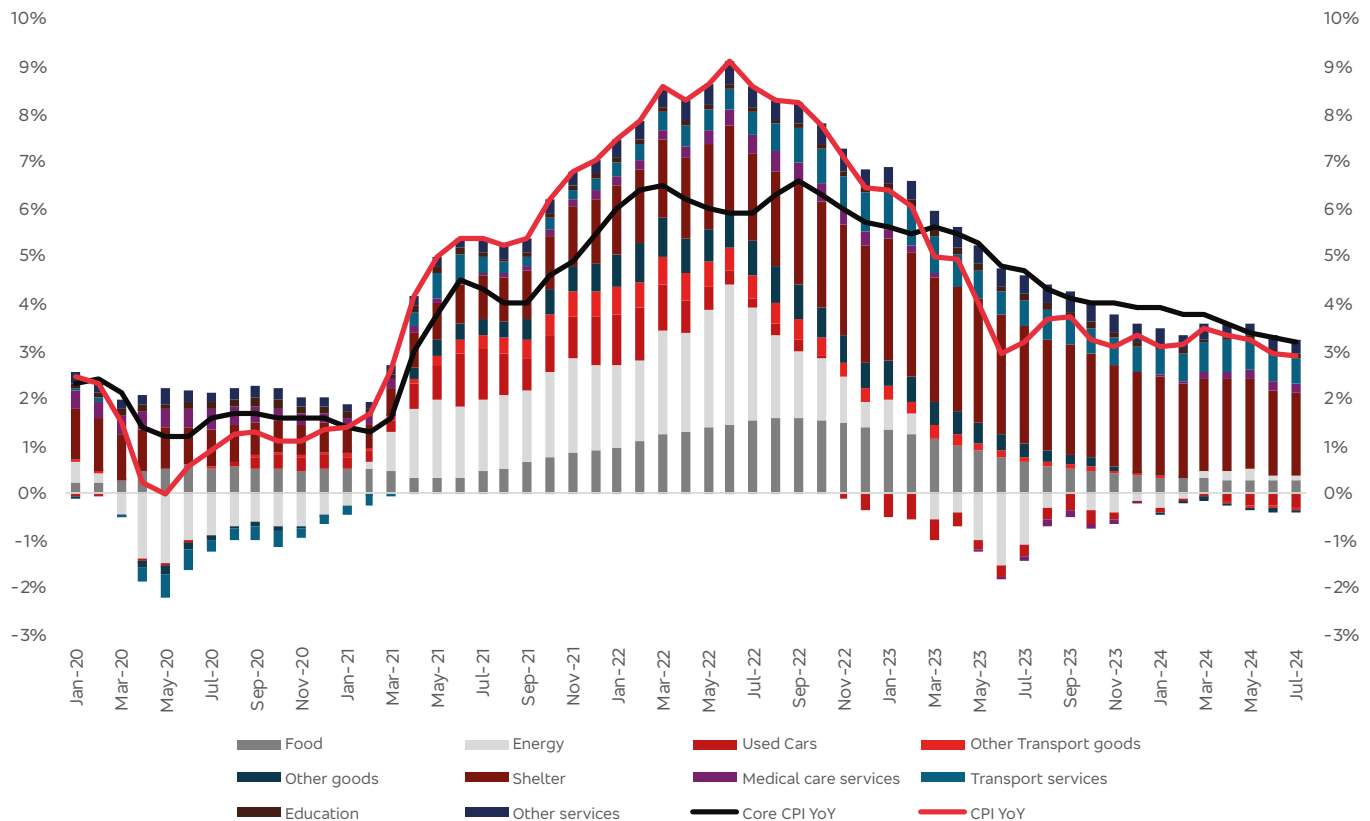
The CPI data along with the somewhat weaker than expected PPI data released yesterday indicate the PCE inflation data (to be released August 30th) will show Core PCE around 0.2%. While inflation has yet to reach the Fed's 2% target, it is heading in the right direction and allows the Fed to switch focus to the other part of its dual-mandate, the employment market. Here, the rise in unemployment in the latest month to 4.3% and lower than expected jobs creation supports the start of Fed rate cuts at its September meeting.

The key question for the September meeting will be, will the Fed cut rates by 0.25% or 0.50%? We believe the economic data out so far would support a 0.25% cut in rates in September and then further 0.25% cuts at its November and December meetings. However, we note that there is still a lot of economic data which will be released before the September 18th Fed meeting and significant weakness, especially in the jobs market, could push the Fed to cut rates by 0.50%. There is also the annual meeting of central bankers in Jackson Hole (August 22-24) where Chairman Powell of the Fed could hint at the start of rate cuts at the September meeting.

Key upcoming economic data include:

- August 15: Retail Sales data for July
- August 22-24: Central Bankers gathering at Jackson Hole
- August 30: PCE inflation data for July
- September 6: Unemployment and non-farm payroll data for August
- September 11: CPI inflation data for August
- September 17: Retail Sales data for August
- September 18: Fed rate decision

CPI fell to 2.9% YoY and Core CPI to 3.2% YoY in July



Disclaimer

Nothing in this presentation shall be regarded as an offer, solicitation, recommendation, or advice (whether financial, accounting, legal, tax or other) given by Bradesco Investments and/or its officers, employees nor affiliates, irrespective of whether such communication was given at your request. Any solicitation or offer to buy, sell, or hold any security must be made and discussed with your relationship officer at Bradesco Investments for it to be considered a solicitation for a transaction. In this regard, Bradesco Investments will make all efforts to only recommend and/or solicit investments in your best interest. Please be aware that the securities, investment views or strategies described herein may not be in the best interest of all investors and are subject to investment risks. Investors may get back less than they invested, and past performance is not a reliable indicator of future results. Asset allocation does not guarantee a profit or protect against loss. Nothing in the presentation should be relied upon in isolation for the purpose of making an investment decision. You are urged to consider carefully whether the services, products, asset classes (e.g. equities, fixed income, alternative investments, commodities, etc.) or strategies discussed are suitable to your needs. You must also consider the objectives, risks, charges, any potential conflict of interest, costs and expenses associated with an investment service, product, or strategy prior to making an investment decision.

The information contained in this is presentation is created using information from third parties that are believed to be reliable; however, Bradesco Investments does not represent or warrant its accuracy, reliability, or completeness, or accept any liability for any loss or damage (whether direct or indirect) arising out of the use of all or any part of the materials within this presentation. No representation or warranty should be made with regard to any computations, graphs, tables, diagrams or commentary, which are provided for illustration/reference purposes only. The views, opinions, estimates and strategies expressed constitute our judgment based on current market conditions and are subject to change without notice.

Investments and brokerage services are provided by Bradesco Investments, US SEC Registered broker/dealer, member of FINRA and SIPC and not by Bradesco Bank®. Securities products purchased or sold in a transaction are: (i) not insured by the Federal Deposit Insurance Corporation ("FDIC"), (ii) not deposits or other obligation of Bradesco Bank® and are not guaranteed by Bradesco Bank®; and (iii) subject to investment risk, including possible loss of the principal invested. Bradesco Investments, Bradesco Bank, Bradesco Global Advisors and Banco Bradesco, SA are affiliated entities under common control. For more information on Bradesco Investments and its business, including possible conflict of interests, please visit: <https://brokercheck.finra.org/firm/summary/19453>. Investment Advisory services are provided by Bradesco Global Advisors, a Registered Investment Advisor with the United States Securities and Exchange Commission. For more information on Bradesco Global Advisors, its services and potential conflicts of interest please visit the SEC public disclosure website at <https://adviserinfo.sec.gov/firm/summary/134416>.