

U.S. Data Review

- Consumer prices: broad-based pressure

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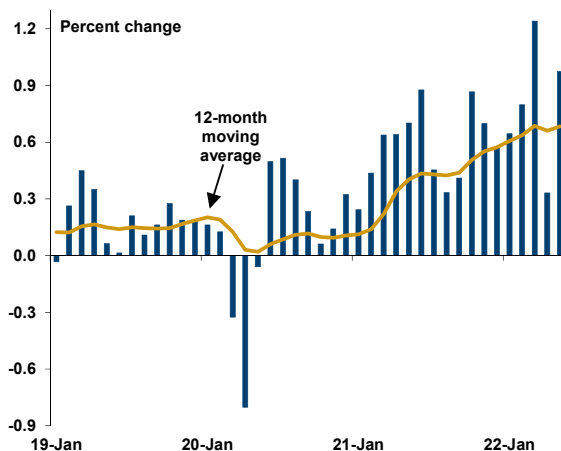
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CPI

The consumer price index jumped 1.0 percent in May, exceeding the expected increase of 0.7 percent. Energy prices contributed to the surprise, as the increase of 3.9 percent exceeded our view of a 3.0 percent advance. Food prices provided a bigger surprise, jumping 1.2 percent, double our expectation of 0.6 percent and exceeding by a wide margin the average of 0.7 percent in the prior 12 months. The combination of higher prices for food and energy no doubt are straining many household budgets (see chart, showing the level of an index, on the next page). The core component also misbehaved, increasing 0.6 percent versus the consensus estimate of 0.5 percent. The latest changes left the headline index up 8.6 percent in the past year, the sharpest advance of the current cycle (beating 8.5 percent in March). The core component rose 6.0 percent, off from 6.2 percent in the prior month and the cyclical high of 6.5 percent in March (charts, below).

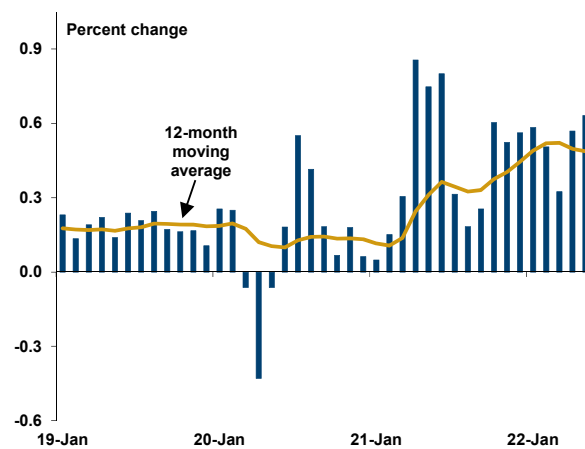
The increase in the core component was broadly based, but travel-related items stood out. Airfares posted their third consecutive double-digit increase, moving far above pre-pandemic levels. After arriving at a destination, travelers faced higher fees for car rentals, which rose for the fourth consecutive month after cooling briefly around the turn of the year. Hotel fees also jumped. The combination of these three items left a monumental price tag for travel (chart, next page; the chart is in levels, so view the vertical axis as showing the price of travel-related services). Prices of new and used motor vehicles also remained under pressure. Prices of new vehicles rose approximately 1.0 percent in each of the past two months, adding a strong accent to the upward trend. The increase of 1.8 percent in the prices of used vehicles followed declines in the prior three months and the level of prices remained below the recent high, but they were still in the stratosphere. Rents represented another notable source of pressure, with the rent of primary residence jumping 0.6 percent. Increases of 0.3 percent were the norm before the pandemic, and advances slowed to approximately 0.2 percent during the worst of the pandemic, but pressure has intensified (chart, next page; percent change measured on the vertical axis). The cost of medical care services, which were tame during the worst of the pandemic, are on the rise.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI

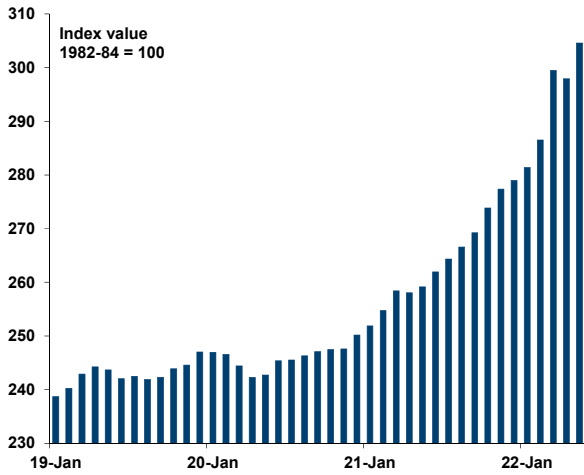


Source: Bureau of Labor Statistics via Haver Analytics

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A few areas that had been under pressure cooled somewhat in May. Prices of household appliances fell for the second consecutive month, although they are still quite high relative to pre-pandemic levels. The cost of tickets to sporting events also have backed away from elevated levels. However, increases dominated this report.

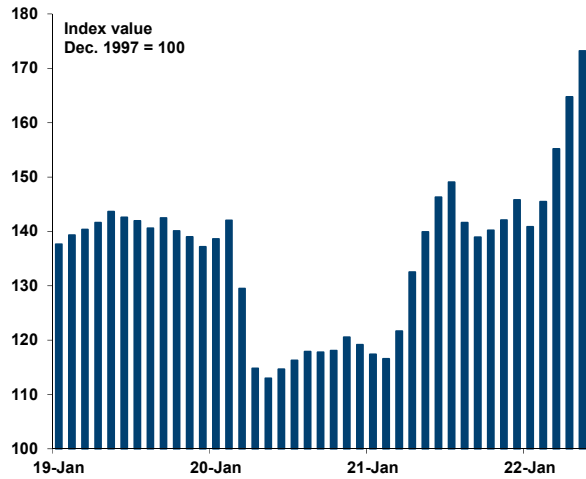
CPI: Food & Energy Index*



* A weighted average index of the Food and Energy components of the CPI. Weights are calculated based on the relative importance of each component in the overall CPI.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

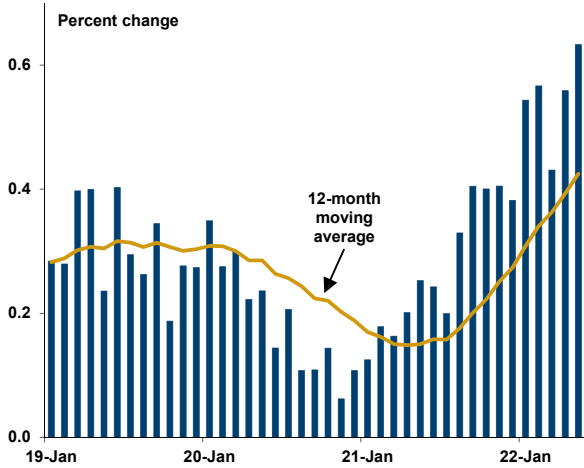
CPI: Travel Services Index*



* A weighted average index of the Airline Fare, Car and Truck Rental, and Other Lodging Away From Home Including Hotels/Motels components of the CPI. Components are reindexed to equal 100 in December 1997. Weights are calculated based on the relative importance of each component in the overall CPI.

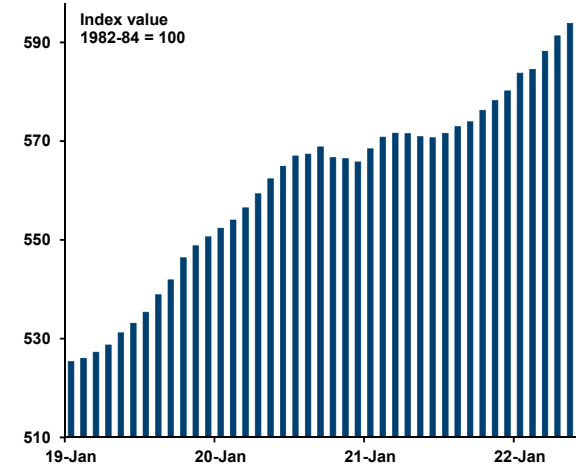
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

CPI: Rent of Primary Residence



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Medical Care Services



Source: Bureau of Labor Statistics via Haver Analytics