

# U.S. Data Review

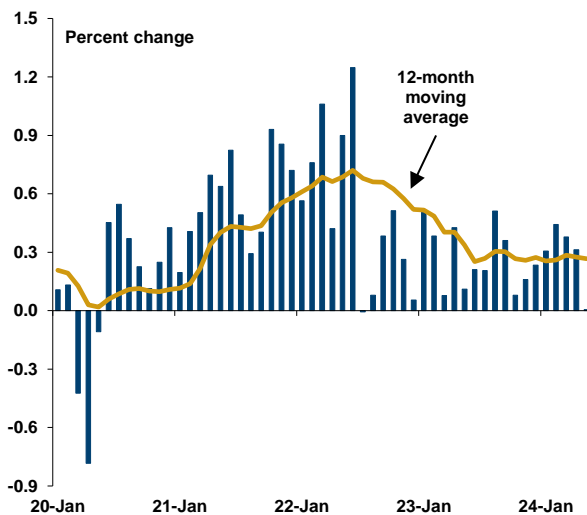
- CPI: broad-based easing in inflation pressure
- Results unlikely to influence the anticipated outcome of today's FOMC meeting (no change in policy); keeps open possibility of multiple cuts later this year

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## CPI

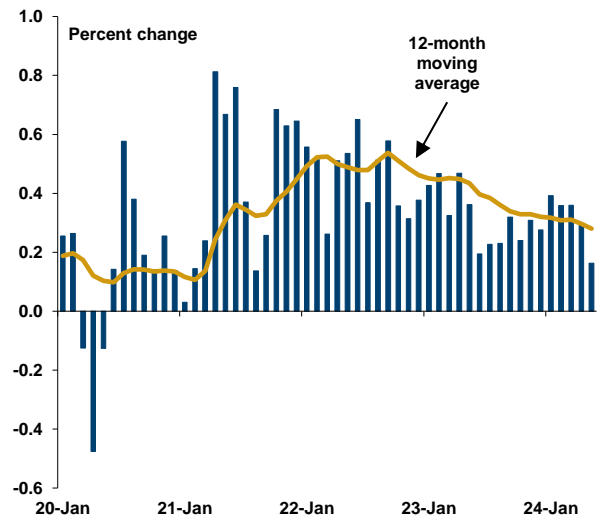
- The CPI moderated for the second consecutive month in May after a strengthening in inflation pressure in Q1. In the latest month, the headline was flat (up slightly with less rounding: +0.006 percent) and the core recorded its smallest monthly increase since August 2021 (+0.163 percent; charts, below). The changes translated to year-over-year advances of 3.3 percent for the headline index (versus +3.4 percent in April) and 3.4 percent for the core (versus +3.6 percent in the prior month). Although the latest reading is unlikely to alter the expected outcome of today's FOMC meeting (no change in the target range for the federal funds rate, currently 5.25-5.50 percent), it could influence policymakers' near-term views reflected in the new dot plot. Although we saw an outside possibility of median dot for 2024 implying one cut (5.125 percent; versus three as of the March iteration – a median view of 4.625 percent), we suspect that today's CPI report solidified views as to signal officials leaning toward two cuts in 2024 (median of 4.875 percent).

### Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

### Core CPI

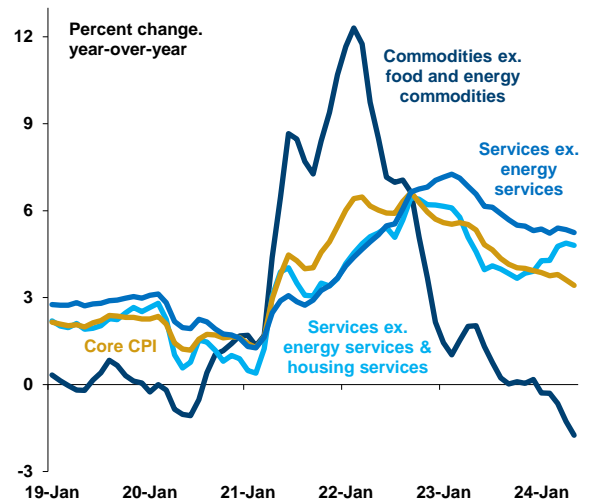


Source: Bureau of Labor Statistics via Haver Analytics

- The energy component fell 2.0 percent in May after three consecutive brisk increases (year-over-year increase of 3.7 percent). In the latest month, the prices of energy commodities declined 3.5 percent; gasoline prices dropped 3.6 percent and fuel oil prices eased 0.4 percent. Additionally, the prices of energy services (electricity and piped gas service) dipped 0.2 percent – the second consecutive decline after 10 consecutive monthly advances.
- The food component rose 0.1 percent (+2.1 percent year-over-year). Food prices have returned to the contained pre-pandemic trend centered around 2.0 percent after coming under acute pressure from late 2021 though early 2023. The food at home index (i.e. costs of groceries) recorded a reading of 0.0 percent in May after a dip of 0.2 percent in the prior month, while the food away from home component advanced 0.4 percent (not seasonally adjusted).

- The advance of 0.2 percent in the core CPI followed six consecutive readings that ranged from +0.275 percent to +0.392 percent (+3.4 percent year-over-year in May versus +3.6 percent in April). Core commodities prices were flat (down slightly with less rounding: -0.044 percent) after a dip of 0.1 percent in the prior month (-1.7 percent year-over-year versus -1.3 percent in April; chart, right). Evidently, disinflation in core goods prices has continued apace after a pandemic-related surge. Core service prices rose 0.2 percent (+0.219 percent with less rounding, +5.3 percent year-over-year) – the smallest month-to-month increase since a pickup of 0.187 percent in September 2021. Cost indexes for primary housing were close to recent readings (both rent of primary residence and owners' equivalent rent of residences were up 0.4 percent, associated with year-over-year increases of 5.3 percent and 5.7 percent, respectively, versus pre-pandemic trends in the mid-to-upper 3's), but other services categories exhibited more meaningful improvement. On the point, core service inflation excluding housing slipped 0.043 percent (rounding to 0.0 percent), which reflected a drop of 3.6 percent in fares and a dip of 0.1 percent in motor vehicle insurance after an unrelenting surge since 2022 (average monthly increase of 1.4 percent from January 2022 through April 2024) among other favorable changes.

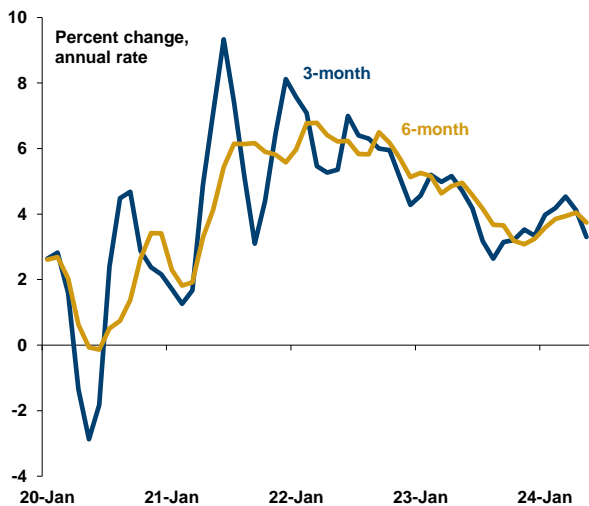
**Decomposition of Core CPI**



Source: Bureau of Labor Statistics via Haver Analytics

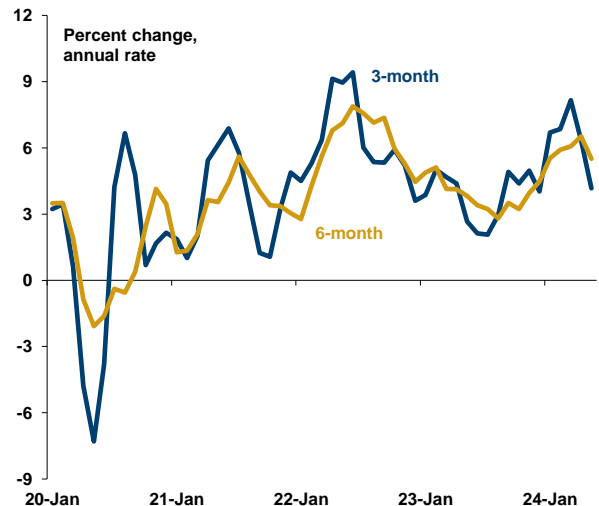
- While the latest CPI reading will be viewed favorably by Fed officials, which likely will be noted in Chair Powell's press conference this afternoon, he's also likely to suggest that one or two favorable inflation readings will not be enough to provide additional confidence to Fed officials that it is moving sustainably back to the two-percent inflation target. That is to say, evidence of additional progress will be necessary before a pivot to lower rates. To aid in that assessment, policymakers previously cited three and six-month annualized growth rates of core and "supercore" (core service excluding housing) metrics to provide a clear view on recent inflation movement. On the point, the three month growth rate for the core CPI fell to 3.3 percent from 4.1 percent in April, and the six-month rate eased to 3.7 percent from 4.0 percent. For core services excluding housing, the three-month rate decelerated to 4.2 percent from 6.3 percent, and the 6-month rate eased 1.0 percentage point to 5.5 percent (charts, below). Progress, but more is required after notable pressure in Q1.

**Core CPI**



Source: Bureau of Labor Statistics via Haver Analytics

**CPI: Core Services Ex. Housing\***



\* Service prices excluding energy services, primary rent, and owners' equivalent rent.

Source: Bureau of Labor Statistics via Haver Analytics