

U.S. Data Review

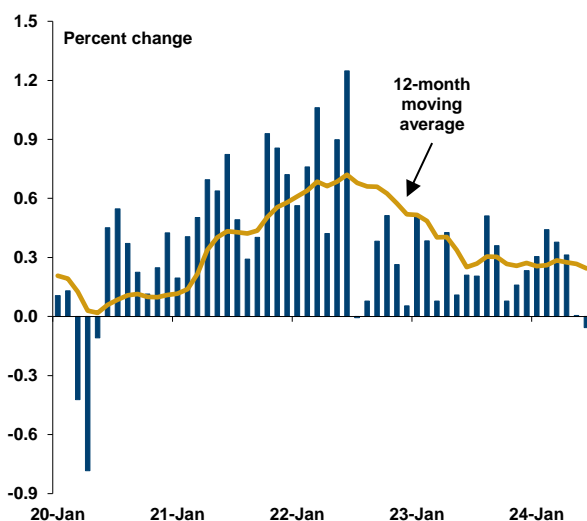
- CPI: easing inflation pressure in June
- FOMC: latest inflation data put Committee on track to ease monetary policy in September

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CPI

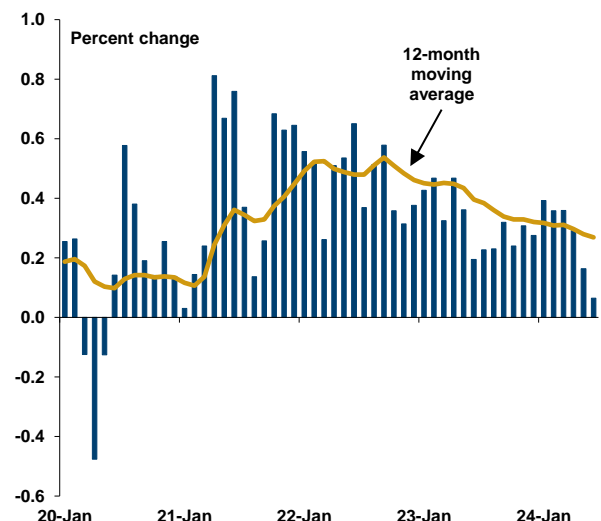
- The CPI registered its second consecutive benign reading in June, further solidifying the case that both restrictive monetary policy and additional unwinding of pandemic-related disruptions are contributing to ongoing disinflation that will, over time, achieve a return to price stability. In the latest month, the headline index dipped 0.1 percent (-0.056 percent with less rounding), while the core CPI increased 0.1 percent (+0.065 percent; charts, below). On a year-over-year basis, the headline advance eased to 3.0 percent in June from 3.3 percent in the prior month, and the core increase eased one tick to 3.3 percent. In our view, the highly favorable results are unlikely to prompt a rate cut at the July 30-31 FOMC meeting, as officials will likely want to review a few more months' worth of inflation and employment data, but we do see the CPI results as strengthening the case for a pivot to easier policy at the September 17-18 meeting.
- The energy component declined 2.0 percent in June, the second consecutive drop of that magnitude after three consecutive firm advances (year-over-year increase of 1.0 percent). In the latest month, the prices of energy commodities fell 3.7 percent, which was joined by a dip of 0.1 percent in the prices of energy services.
- The broad food component increased 0.2 percent (+2.2 percent year-over-year). Food prices have returned to the contained pre-pandemic trend (year-over-year growth in the low-to-mid two-percent area) after coming under persistent pressure from late 2021 through early 2023. The food at home component (groceries) increased 0.1 percent (+1.1 percent year-over-year). The food away from home segment (restaurant meals; not seasonally adjusted) rose 0.4 percent (+4.1 percent year-over-year).

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI

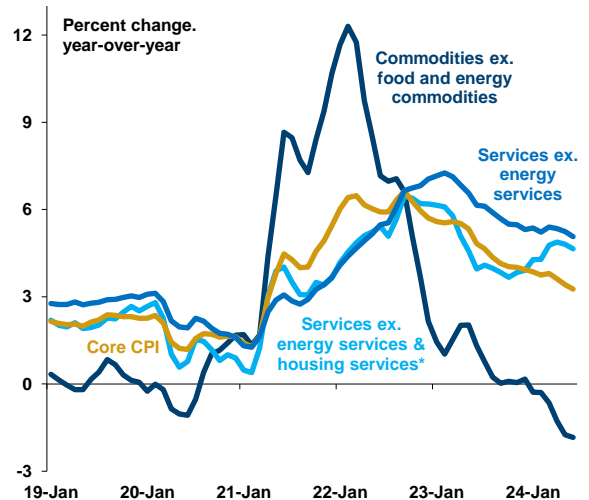


Source: Bureau of Labor Statistics via Haver Analytics

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- The advance of 0.1 percent in the core CPI marked the second consecutive month of subdued growth (3.3 percent year-over-year versus 3.4 percent in May; chart, right). Core commodities prices dipped 0.1 percent, continuing on their disinflationary path (-1.8 percent year-over-year). On the point, the disinflationary trend has accelerated recently after the previous pandemic-related surge. Core service prices increased 0.1 percent (+0.131 percent with less rounding), the slowest increase since an uptick of 0.094 percent in August 2021. In the latest month, price indexes for primary housing slowed from recent readings of 0.4 percent (both rent of primary residence and owners' equivalent rent of residences rounded up to 0.3 percent, associated with year-over-year increases of 5.1 percent and 5.4 percent, respectively, versus pre-pandemic trends in the mid-to-upper 3's but down from advances of 5.3 percent and 5.7 percent, respectively, in May). Core service inflation excluding rents and owners' equivalent rent (the so-called supercore) dipped 0.1 percent (-0.052 percent) after a miniscule decline in May (-0.043 percent). The favorable reading in June in part reflected a plunge of 5.0 percent in airfares, but price changes in other service categories were also favorable (for example, prices of recreation services dipped 0.1 percent and prices of medical care services registered a moderate increase of 0.2 percent). On a year-over-year basis, the advance in the supercore measure slowed from 4.8 percent to 4.6 percent (and down from an expansion high of 6.5 percent in September 2022).

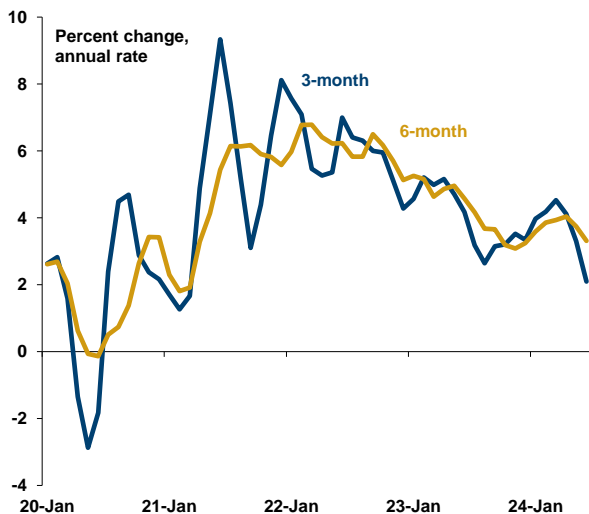
Decomposition of Core CPI



* Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.
Source: Bureau of Labor Statistics via Haver Analytics

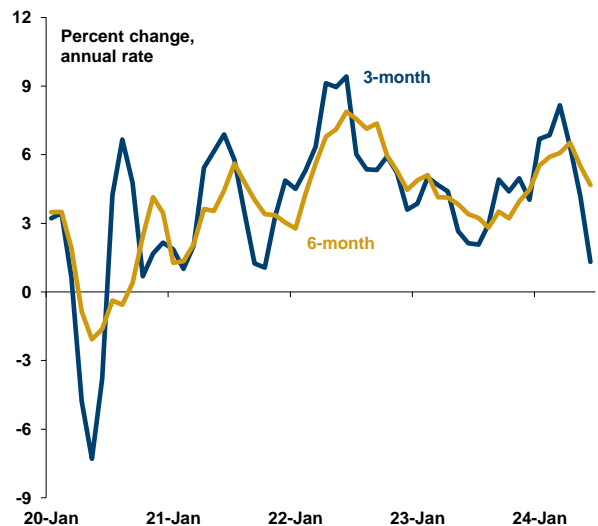
- Although the latest CPI report was highly positive, Fed officials will likely need to see a few more favorable inflation prints to gain greater confidence that inflation is moving sustainably back to the two-percent inflation target (although we view conditions as likely fulfilled by the September FOMC meeting when officials will have PCE data for June and July and additional CPI data though August). To view progress through the lens of previous measures cited by Chair Powell and his colleagues, please see below the three and six-month annualized growth rates of the core CPI and supercore index. The three-month growth rate for the core CPI fell to 2.1 percent from 3.3 percent in May, and the six-month rate eased to 3.3 percent from 3.7 percent. For core services excluding housing, the three-month rate decelerated to 1.3 percent from 4.2 percent, and the 6-month rate eased from 5.5 percent to 4.7 percent – measurable progress (charts, below).

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Core Services Ex. Housing



Source: Bureau of Labor Statistics via Haver Analytics