U.S. Data Review

- CPI: benign reading in May amid scant evidence of tariff-related pressure

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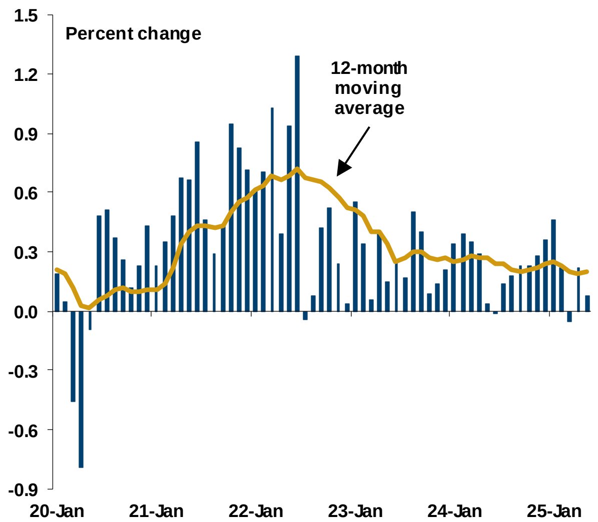
May CPI

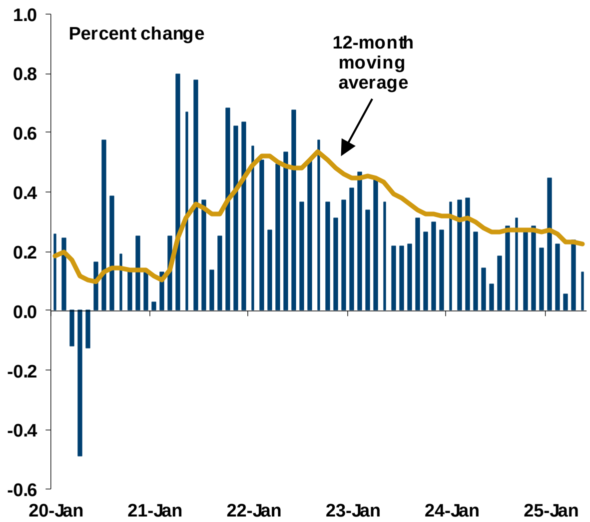
- Results for the May CPI marked the fourth consecutive month of subdued readings. Both the headline and core measures rose 0.1 percent in the latest month (+0.081 percent and +0.130 percent, respectively, with less rounding) versus the Bloomberg survey median expectations of +0.2 percent and +0.3 percent, respectively. The latest changes translated to year-over-year advances of 2.4 percent for the headline measure (+2.355 percent versus +2.311 percent in the prior month) and 2.8 percent for the core (+2.787 percent versus +2.779 percent in April). We still anticipate that tariff-related price pressure will emerge in core goods prices in the next few months (likely peaking in Q3), but we maintain the view that ongoing trade negotiations, along with anchored longer-term inflation expectations, point to a one-off (and relatively short-lived) shift. In other words, the worst-case scenario assumed with the initial announcement of Liberation Day tariffs, in our view, has an increasingly unlikely chance of being realized.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI

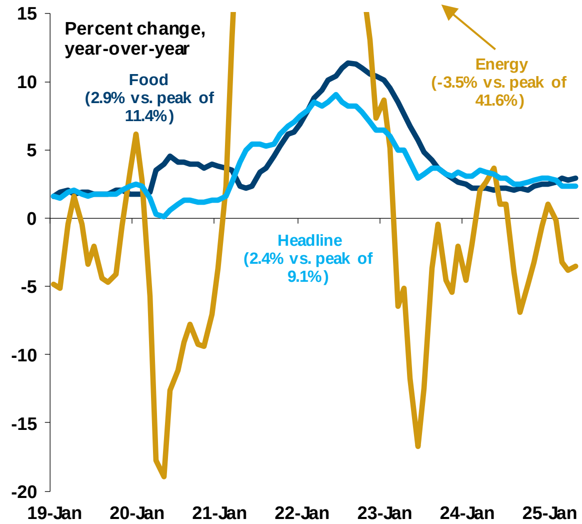


Source: Bureau of Labor Statistics via Haver Analytics

- The energy component fell 1.0 percent in May (-3.5 percent year-over-year), with a monthly drop of 2.4 percent in energy commodities (-11.6 percent year-over-year) offsetting a pickup of 0.4 percent in energy services (+6.8 percent year-over-year). On the commodity side, gasoline prices fell 2.6 percent – the fourth consecutive decline, including a plunge of 6.3 percent in March. Results were mixed in the energy services area, where a decline of 1.0 percent in the costs of utility gas service was offset by a jump of 0.9 percent in electricity costs – the fourth consecutive firm advance.

- The food component rose 0.3 percent in May following a dip of 0.1 percent in the prior month. Correspondingly, the year-over-year increase accelerated to 2.9 percent in May from 2.8 percent previously. Prices of food at home (i.e., groceries) rose 0.3 percent (+2.2 percent year-over-year). Egg prices fell again (-2.7 percent) after a plunge of 12.7 percent in April, and costs of meats, poultry & fish were restrained (-0.1 percent), but other areas – particularly processed items – were under pressure (e.g., prices of cereals & bakery products rose 1.1 percent, processed fruits and vegetables products increased 0.9 percent, and other foods at home increased 0.6 percent). The food away from home area (i.e., restaurant meals) rose 0.3 percent (not seasonally adjusted). The year-over-year advance of 3.8 percent is off one tick from the April reading but still up 0.4 percentage point from the recent low in January.

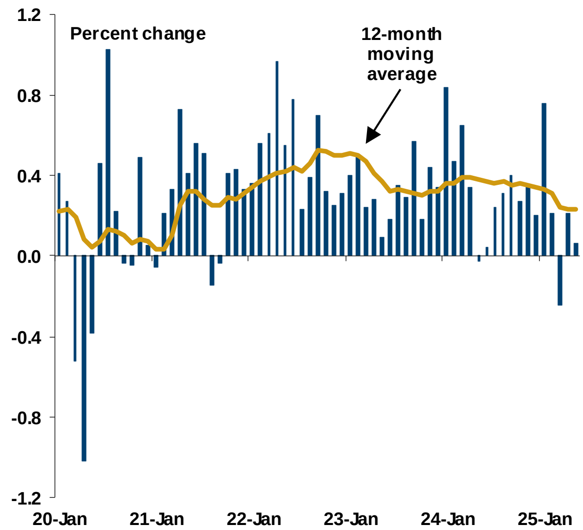
CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

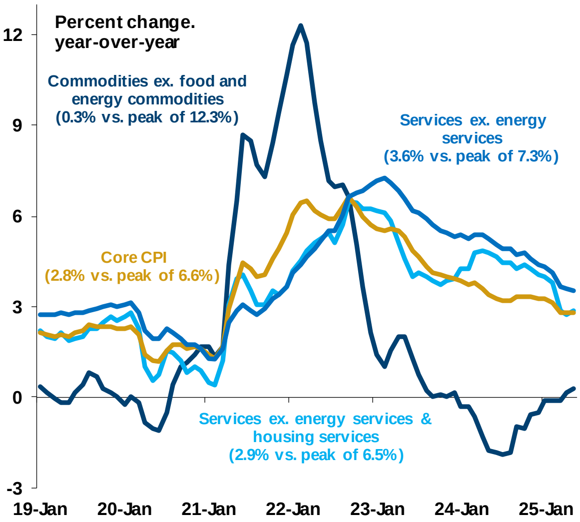
- The pickup of 0.1 percent in the core component reflected a modest increase of 0.2 percent in the costs of services excluding energy services (+3.6 percent year-over-year) offsetting a miniscule decline in the costs to core commodities that rounded to no change (-0.040 percent month-to-month; +0.3 percent year-over-year, up from +0.1 percent in April). On the services side, shelter costs showed continued signs of moderation. The rent of primary residence component rose 0.2 percent, with the year-over-year advance of 3.8 percent the slowest since January 2022 (and aligned with the pre-pandemic trend). Similarly, owners' equivalent rent of residences rose 0.3 percent month-to-month, which translated to a year-over-year increase of 4.2 percent – still above pre-pandemic readings but also the most favorable reading since early 2022. Core services excluding housing increased 0.1 percent in May (+0.061 percent with less rounding, continuing the series of friendly readings since February (+0.06 average increase over that span; year-over-year increase of 2.9 percent, up 0.2 percentage point from the April reading). Airfares again fell (-2.7 percent in May, with an average decline of 3.7 percent since February), while costs of hotel fees and recreation services each eased 0.1 percent. Conversely, car and truck rental fees jumped 2.7 percent and motor vehicle insurance costs rose 0.7 percent. On the goods side, both prices of new and used vehicles declined (-0.3 percent and -0.5 percent, respectively), as did those for apparel (-0.4 percent). Contrastingly, prices of appliances rose 0.8 percent for the second consecutive month, perhaps hinting at pass-through effects from tariffs. All this said, the disinflation in core goods, broadly speaking, has ended.

CPI: Core Services Ex. Housing*



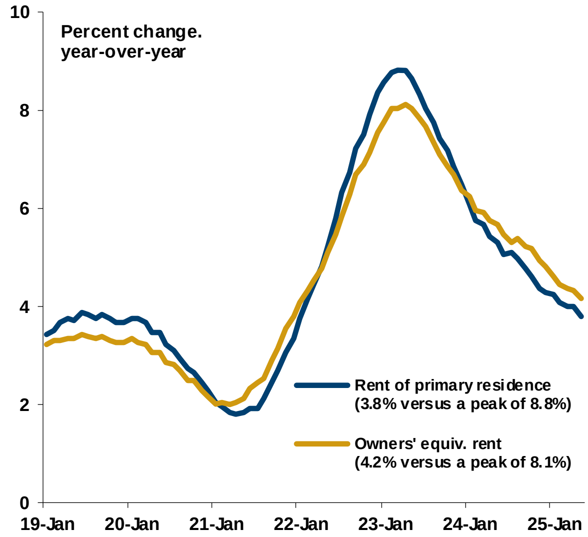
** Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.*
Source: Bureau of Labor Statistics via Haver Analytics

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics

- The data from today's report suggest that the core PCE price index could advance 0.1 percent in May, which would leave the year-over-year advance essentially unchanged at 2.5 percent. Results from the PPI (released tomorrow) will help us refine our estimates, although we view the FOMC as still likely on hold for the next two meetings (June 17-18 and July 29-30) before tariff-related noise subsides to a degree and the Committee can again shift toward further easing in September to support possible further easing in the labor market.