

July 13, 2022

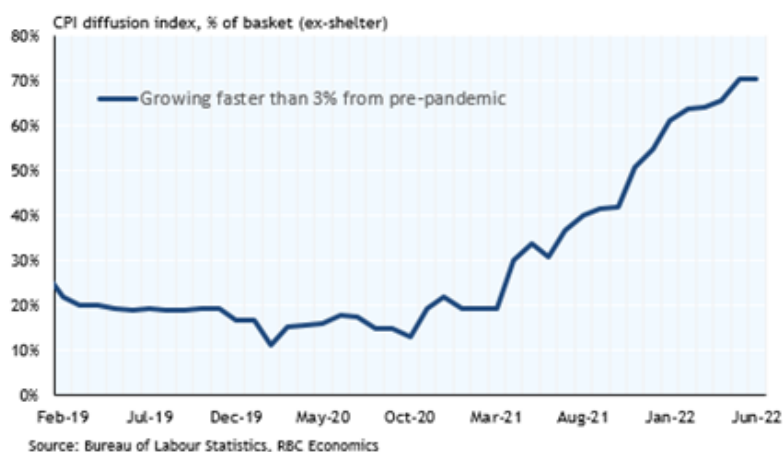
U.S. inflation hit a boiling point in June

- Inflation grew 9.1% above a year ago thanks to surging gasoline prices; core CPI ticked lower to 5.9%.
- Broadening inflation trends may soon show signs of plateauing amid easing global supply chain constraints.
- Price pressures still much too strong to delay Fed rate hikes.

Inflation pressures kept brewing in the U.S. in June as the headline reading reached 9.1%. That's particularly true for non-discretionary categories where consumers tend to feel the pinch most quickly. June saw faster appreciation in food (10.4%) and energy (41.5%) prices as gasoline grew another 11% just over month. Excluding those products, core inflation actually ticked lower, to 5.9% from 6.0% on sharply slower growth from used vehicles. That's more a reflection of surging prices a year ago not being repeated than near-term momentum. Prices for used cars still grew 1.6% from May. Airline fares ticked slightly lower in June after surging over the past months, but should also remain elevated in the near-term as travel demand continues to boom. Overall, price pressures remained extremely broad, with over 70% of the consumer basket outside of shelter seeing growth (annualized relative to pre-pandemic) above 3%.

Still, further accelerations in CPI should be increasingly hard to come by. Global supply chain constraints have been easing persistently according to an assortment of shipping indicators. Commodity prices, after having surged upon Russian invasion into Ukraine, have also turned a corner and returned some of the gains. New car prices should continue to grow in the near-term given elevated demand evident by record-low retail inventory-to-sales ratio. But steadily rising auto production should help alleviate some of that price pressures down the road. Countering those inflation headwinds are higher rent prices, which should continue to put a floor under near-term inflation readings. All told, inflation has a long way to fall from currently high levels back to Federal Reserve policymakers' target. The Fed will act as forcefully as needed to accelerate that process, including with another 75 basis point hike to the fed funds target range expected at the next policy decision later this month.

Inflation pressures remain extremely broad-based in the U.S.



U.S. CPI Growth

	<u>Apr-22</u>	<u>May-22</u>	<u>Jun-22</u>	<u>Jun-22</u>
	MoM % change (SA)			YoY % change
Headline	0.3	1.0	1.3	9.1
Food	0.9	1.2	1.0	10.4
Energy	-2.7	3.9	7.5	41.6
Core	0.6	0.6	0.7	5.9
Goods ex food and energy	0.2	0.7	0.8	7.2
Used cars and trucks	-0.4	1.8	1.6	7.1
Services ex energy	0.7	0.6	0.7	5.5
Car and truck rental	0.8	1.7	-2.2	-7.7