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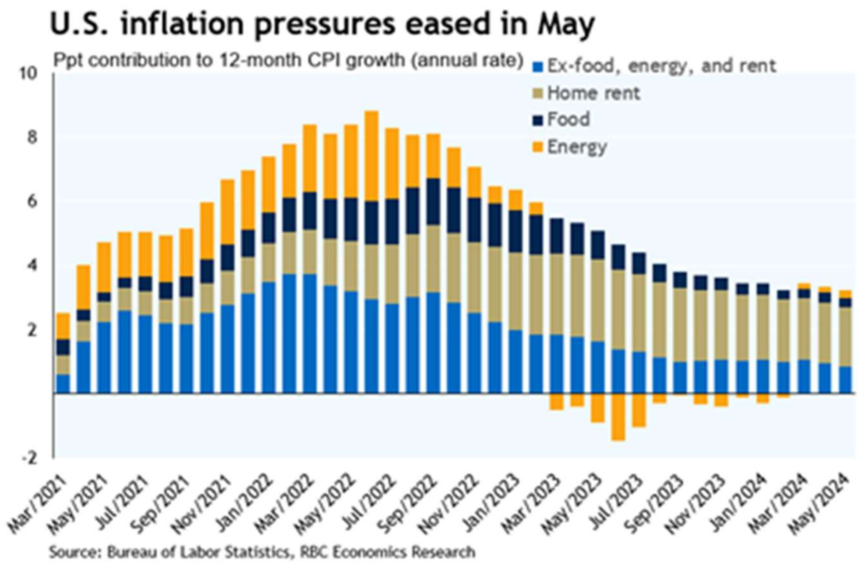
Economic Update

June 12, 2024

U.S. inflation slowed in May



- Year-over-year CPI growth edged down to 3.3% in May from 3.4% in April. That was softer than expected and with underlying details that reversed a chunk of upside surprises in inflation growth earlier this year.
- Prices of core services ex-rent - the 'supercore' measure that Federal Reserve policymakers have been watching closely as an indicator of domestically produced U.S. inflation pressures - actually edged slightly lower from April in May (-0.04%). That was the lowest month-over-month reading since September 2021.
- Airline fares, new car prices and communications were among the items that made downward contributions to month over month growth in the supercore measure. In addition, the breadth of inflation pressures also narrowed in May.
- 'Core' (excluding food and energy prices) price growth slowed to 3.4% from 3.6% year-over-year on a more normal looking 0.2% month-over-month increase in May (the first monthly increase under 0.3% since October.)
- Home rent price growth was still firm at +0.4% month-over-month and +5.4% year-over-year but should continue to grind gradually lower as slower growth in current market prices continue to filter through to rents paid as leases are renewed.
- Energy price growth ticked higher on a year-over-year basis with a drop in gasoline prices from April (-3.6%) still smaller than last year's decline, and food price growth was little changed at 2.1% year-over-year.

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- **Bottom line:** Federal Reserve officials will be relieved that price growth took a step back in May after signs of reacceleration earlier this year. One month doesn't make a trend, and price growth is still running above the 2% inflation objective. And inflation won't slow fully and sustainably to where the Fed wants it without some softening in the economic backdrop. But GDP growth is also tracking a sub-2% rate in the first half of this year and the unemployment rate has edged higher. The data will help to reinforce Fed Chair Powell's view that interest rates are already at levels 'restrictive' enough to slow economic growth and inflation, and what is needed is more time with interest rates at current levels rather than further increases. Our own base-case assumes the first Fed rate cut will come in December.

U.S. CPI Growth

	Mar-24	Apr-24	May-24	May-24
	MoM % (SA)			*YoY % (NSA)*
Headline	**0.4**	**0.3**	**0.0**	**3.3**
Food	0.1	0.0	0.1	2.1
Energy	1.1	1.1	-2.0	3.7
Core	**0.4**	**0.3**	**0.2**	**3.4**
Goods ex food and energy	-0.2	-0.1	0.0	-1.7
Used cars and trucks	-1.1	-1.4	0.6	-9.3
Services ex energy	0.5	0.4	0.2	5.3
Rent of shelter	0.5	0.4	0.4	5.4
Fed's preferred	0.6	0.4	0.0	4.7

Source: BLS, RBC Economics