

U.S. Consumer Price Index — May

Inflation Creep

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Bottom Line: Slowly but surely, inflation in the U.S. is creeping higher in response to tightening labour markets and some tariff pass-through to consumers. This tendency could weigh toward an upward nod in the “dot plot” at tomorrow’s FOMC announcement.

U.S. consumer prices rose 0.2% in May with and without food and energy costs, as expected. This lifted the annual headline rate three notches to a more than six-year high of 2.8%, and the core rate slightly to 2.2%, the highest since early last year. While the latter is up from last summer’s low point of 1.7%, part of the increase reflects the dropping out of big declines in cell phone service charges and physician service fees. Still, there’s no disputing a gradual upward drift, as the six-month annualized rate has been hovering around 2.5% all this year. In May, unchanged prices for food, clothing and recreation, and another hefty decline in airline fares, were more than offset by ongoing pressure on rents (0.3% m/m and 3.4% y/y) and prescription drugs (1.4% and 3.7%). New vehicle prices also showed some spark, up 0.3%, possibly due to pass-through of rising steel and aluminum costs owing to tariffs, though they are still down 1.1% from a year ago. The cost of driving was also lifted by gasoline prices jumping another 1.7%, taking their yearly gain to 21.8%.

While the Fed’s preferred measure of underlying inflation, the core PCE, remains shy of the 2% target (at 1.8%), it’s bound to drift higher, too. The slow but steady upward pressure on inflation could tilt a majority of FOMC members to lift their suggested interest rate forecast, possibly penciling in two additional moves in the second half of the year after almost certainly raising rates tomorrow.



Consumer Price Index

United States (month/month % change : s.a.)	(% change : a.r.)				
	May	Apr	Mar	6-month	12-month
All Items	0.2	0.2	-0.1	2.5	2.8
Ex. Food and Energy	0.2	0.1	0.2	2.5	2.2
Food	0.0	0.3	0.1	1.6	1.2
Energy	0.9	1.4	-2.8	4.8	11.7
Clothing	0.0	0.3	-0.6	5.0	1.4
Transportation	0.4	0.2	-1.2	2.8	5.9
New Vehicles	0.3	-0.5	0.0	-0.3	-1.1
Gasoline	1.7	3.0	-4.9	7.3	21.8
Medical Care	0.2	0.1	0.4	2.7	2.4
Recreation	0.0	-0.4	0.0	-0.6	0.2
Education	0.4	0.2	-0.1	1.8	2.0
Owners’ Equivalent Rent	0.3	0.3	0.3	3.4	3.4

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