

U.S. Consumer Price Index — May

MIA

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Bottom Line: U.S. inflation remains missing in action...the Fed likely won't be.

Consumer prices rose 0.1% in May, cutting the yearly rate to 1.8%. Core prices rose 0.1% for a fourth straight month, trimming the yearly rate to 2.0%, and keeping the 3-month annualized rate at 1.6%...so there is potential for the yearly rate to slide further. Gas prices declined, while food prices retraced higher after discounting at Whole Foods in April. While medical care and rents continue to rise at a steady 0.3% monthly pace (the latter due to low rental vacancy rates), other items remain under downward pressure. Used vehicle prices plunged 1.4%, though a more recent upturn in the Manheim index suggests some reversal in coming months. Clothing prices were flat after big declines the prior two months (including a record tumble in March). Prescription drug prices fell and are down in the past year.

So, despite some modest upward pressure from tariffs, inflation remains well in check due to the strong dollar, falling unit labour costs and aggressive online competition driven by digital technologies. Our outlook for sub-potential economic growth in the year ahead risks even less inflation pressure.

A fourth straight low core print will have the Fed seriously question achieving its inflation target, especially if the trade war heats up and chips away at economic growth. We continue to expect rate reductions in July and October.



Table 1 - United States — CPI
(month/month % change : s.a.)

	May	Apr	Mar	(% chng : a.r.)	
				6-mnth	12-mnth
All Items	0.1	0.3	0.4	1.9	1.8
Ex. Food and Energy	0.1	0.1	0.1	1.9	2.0
Food	0.3	-0.1	0.3	2.9	2.0
Energy	-0.6	2.9	3.5	0.6	-0.5
Clothing	0.0	-0.8	-1.9	-2.6	-3.1
Transportation	-0.3	1.2	1.5	-0.5	0.6
New Vehicles	0.1	0.1	0.4	1.2	0.9
Gasoline	-0.5	5.7	6.5	2.6	-0.2
Medical Care	0.3	0.3	0.3	2.4	2.1
Recreation	-0.3	0.0	0.3	0.7	1.2
Education	0.2	0.2	0.5	3.5	3.2
Owners' Equivalent Rent	0.3	0.3	0.3	3.6	3.4

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