

U.S. Data Review

- CPI: contained inflation; energy prices decline, core rises modestly

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Consumer Prices

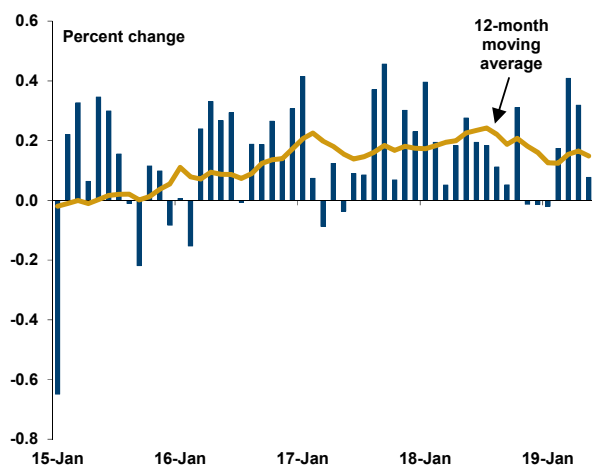
The consumer price index rose 0.1 percent in May, matching expectations (chart, left). The core component also rose 0.1 percent, lighter than the expected increase of 0.2 percent, and the measure was not close to rounding up to the expected increase (0.113 percent). The latest changes left the year-over-year increase in the headline index at 1.8 percent, down from 2.0 percent in April and a recent peak of 2.9 percent in July of last year. The year-over-year change in the core index totaled 2.0 percent, down from 2.1 percent in April and 2.4 percent in July of last year.

Energy prices helped to hold down the CPI, as this component fell 0.6 percent. Lower charges for electricity and natural gas led the drop, but prices of gasoline and fuel oil also contributed. The drop was a small offset to sharp increases in the prior two months, but those jumps were offsets to lower prices in earlier months. Energy prices are best described as fluctuating within a moderately sized range. Food prices rose 0.3 percent. The noticeable increase could be viewed as an offset to a dip of 0.1 percent in the prior month, but this area has quickened since late last year (up an average of 0.235 percent since December versus an average of 0.111 in the first 11 months of last year).

The modest increase in the core CPI was the most notable aspect of the report (chart, right). Some of the restraint could be viewed as random movement. For example, rent of primary residence and owners' equivalent rent both posted below-average increases after firm advances in the prior two or three months. Similarly, hotel fees dipped after surging to a record high in April. At the same time, the results suggested fundamental restraint. Only a few items posted noticeable increases in price, and they too might be described as mere noise. For example, airfares jumped 2.0 percent after dropping in five of the prior six months. Tobacco prices rose 0.4 percent, but this followed a rare decline in April (although small at 0.1 percent). So far this year, the core index has increased at a slightly slower pace than it did last year (0.150 percent in the first five months of the year versus an average of 0.183 percent last year). Similarly, the moving three-month change (1.7 percent, annual rate) is in the low end of the range from the past few years.

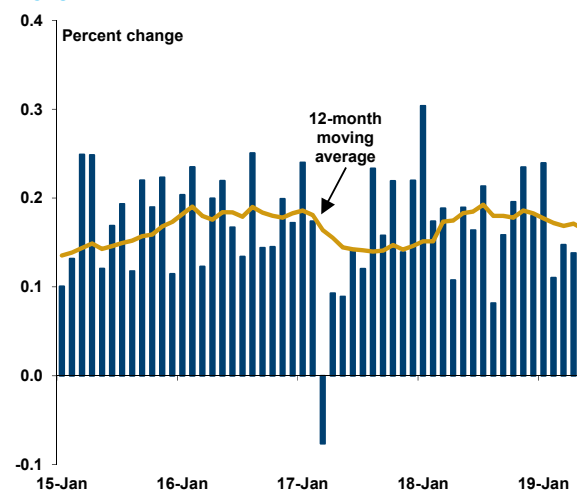
We have argued in much of our recent commentary that the case for easier monetary policy is not especially strong at this time (policy is neutral and the economy is growing at its potential rate; a sweet spot for policy). If a case is to be made, it could be based on contained inflation.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

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