Daiwa Capital Markets

U.S. Data Review

- CPI: core increase below expectations, although tariffs seeping through to goods prices

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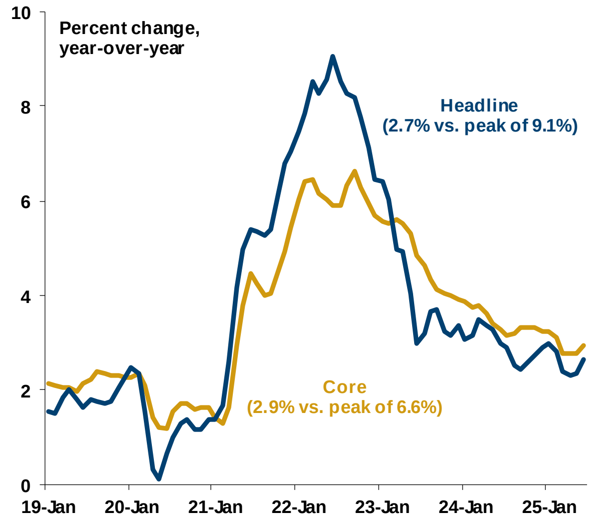
June CPI

- The CPI rose moderately in June, with the headline measure matching the Bloomberg median expectation at +0.3 percent (+0.287 percent with less rounding) and the core advance of 0.2 percent (+0.228 percent) softer than the median view. The latest shifts equated to year-over-year increases of 2.7 percent for the headline index (+2.669 percent in June versus +2.355 percent in May) and 2.9 percent in the core measure (+2.934 percent versus +2.787 percent previously; chart, below left). The latest report showed the clearest signs yet that tariff-related price effects are showing up in consumer inflation gauges, with pressure likely to intensify in the next few months before leveling off later this year. With that said, the influence may be relatively short lived, and developments in other components of inflation may allow for the resumption of rate cuts later this year. The July meeting is likely off the table given current uncertainty, but a path to reductions in the fall remains.

- The energy component rose 0.9 percent in June (-0.8 percent year-over-year), with an advance of 1.0 percent in energy commodities (-7.9 percent year-over-year) joining an increase of 0.9 percent in energy services (+7.5 percent year-over-year). On the commodity side, gasoline prices rose 1.0 percent after five consecutive months of sharp declines – a cumulative drop of 9.7 percent over that period. On the services side, the electricity component rose 1.0 percent (with a year-to-date jump of 4.7 percent), and the costs of utility piped gas increased 0.5 percent (+11.6 percent year-to-date).

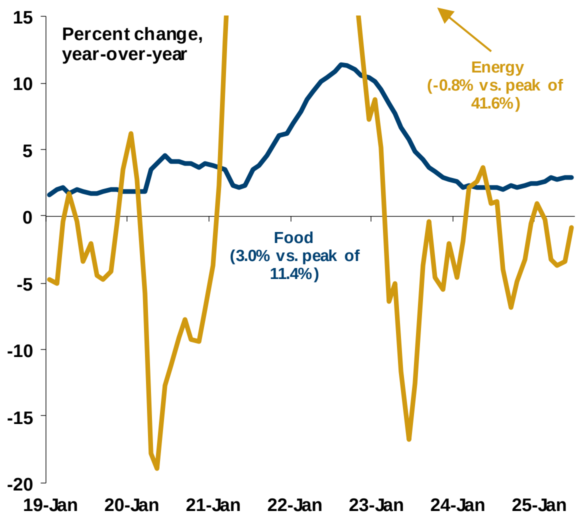
- The food component recorded its second consecutive increase of 0.3 percent in June (+3.0 percent year-over-year, 0.1 percentage point faster than the May reading; chart, below right). Prices of food at home (i.e., groceries) rose 0.3 percent (+2.4 percent year-over-year). The food away from home area (i.e., restaurant meals) rose 0.4 percent (not seasonally adjusted), which equated to a year-over-year increase of 3.8 percent – essentially matching the advance in the prior month. The performance of the aggregate food index is not overly concerning, with the latest year-over-year change well below the recent peak of 11.4 percent in August 2022, but it is notably faster than the rate that prevailed prior to the pandemic (December-to-December change of +1.8 percent in 2019).

CPI: Headline & Core



Source: Bureau of Labor Statistics via Haver Analytics

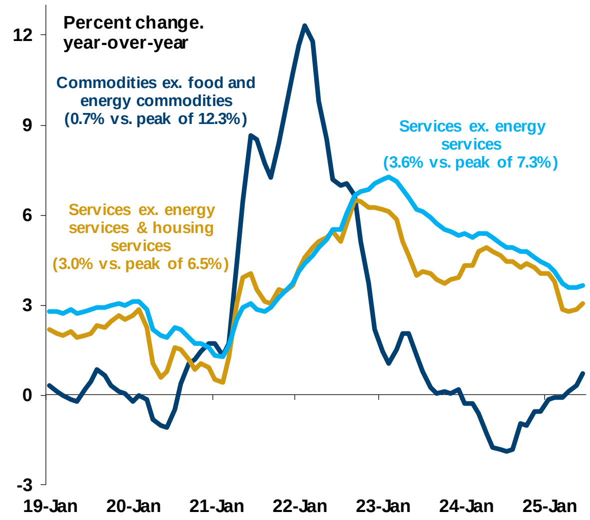
CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

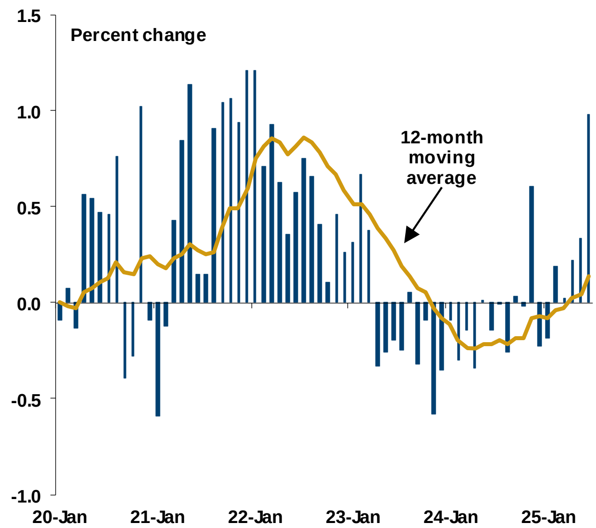
- The reading of +0.2 percent in the core index reflected a same-sized change in the index of commodities less food and energy commodities area (+0.7 percent year-over-year in June, up from +0.3 percent the prior month and the fastest increase since July 2023) and an increase of 0.3 percent in services less energy services component (+3.6 percent year-over-year, fractionally faster than results in the prior two months although rounding to the same result). On the goods side, new vehicle prices eased 0.3 percent for the second consecutive month and costs of used vehicles fell for the fourth consecutive month (off 0.7 percent in June), which contained the overall advance. Elsewhere, signs of tariff-related pressure showed signs of emerging. For example, the broad household furnishings and supplies category jumped 1.0 percent (the fastest increase since January 2022; chart, below left), including a surge of 1.9 percent in the prices of appliances (which followed back-to-back increases of 0.8 percent). Additionally, the costs of recreation commodities rose firmly (+0.8 percent; chart, below right), influenced importantly by the 1.8 percent jump in toys. On the service side, shelter costs were broadly restrained. The rent of primary residence component rose 0.2 percent for the second consecutive month, with the year-over-year change rounding up to 3.8 percent (versus a result that rounded down to that number in the prior month) and in line with pre-pandemic trends. Similarly, owners' equivalent rent of residences rose moderately (+0.3 percent), although the year-over-year advance was essentially unchanged at 4.2 percent and remained above pre-pandemic norms – but well off highs during the recent bout of severe inflation (charts, next page). Interestingly, hotel fees plunged 3.6 percent, an outsized drop that could suggest slowing demand for spending in discretionary areas. The core service less housing area rose 0.2 percent in June (+0.212 percent versus +0.061 percent in May), with the year-over-year advance accelerating to 3.0 percent from 2.9 percent. Airfares dipped 0.1 percent after four consecutive sharp contractions, and motor vehicle insurance costs rose 0.1 percent, but medical care services costs again showed signs of pressure (+0.6 percent in June, the third increase of 0.5 or 0.6 percent in 2025 thus far).

Decomposition of Core CPI



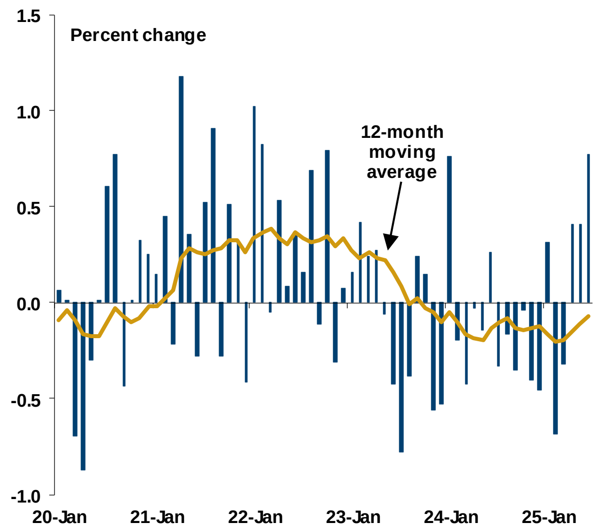
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Household Furnishing and Supplies



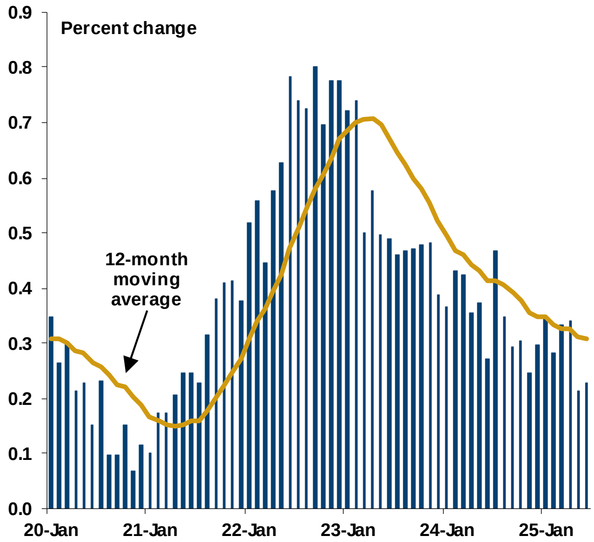
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Recreation Commodities



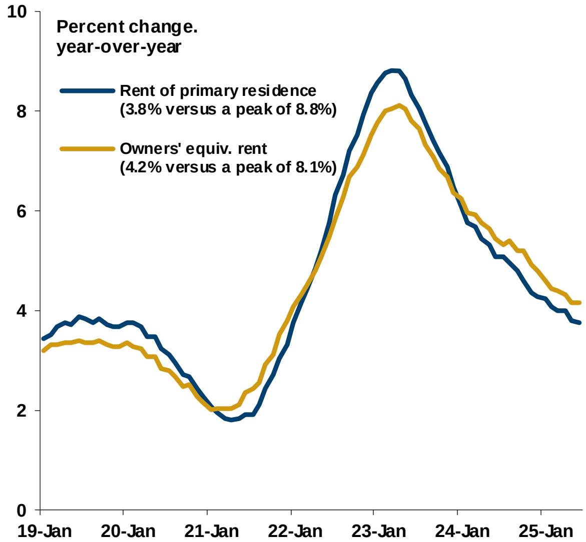
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Rent of Primary Residence



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics

- The data from today's report suggest that the core PCE price index is on track to advance 0.3 percent in June, pending results from the PPI released tomorrow. The currently projected increase would leave the year-over-year advance on track to rise 2.7 to 2.8 percent – either equal to or a tick faster than the May result, contingent on rounding. In line with current market expectations (and as noted earlier), we suspect that the results for June inflation thus far, along with uncertainty surrounding the impacts of trade policy on consumer prices, will keep the FOMC on the sidelines in July. That said, we expect pressure from tariffs to be relatively short lived and therefore will preserve the FOMC's ability to respond to labor market conditions later this year should they warrant support from easier monetary policy.