U.S. Data Review

- CPI: drop in gasoline prices contributes to drop in headline; core inflation rounds up to no change

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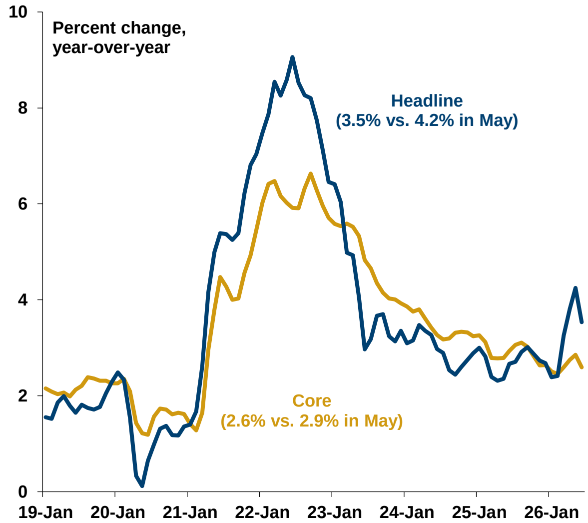
June CPI

- The headline consumer price index slipped 0.4 percent in June, its first month-to-month decline since June 2024 and the largest since April 2020 (versus the median expectation of -0.1 percent from the Bloomberg economist survey). At the same time, the core index rounded up to no change (-0.017 percent with more precision), the softest one-month change since a 0.1-percent decrease in May 2020 (versus the survey expectation of +0.2 percent). Those results corresponded with year-over-year advances of 3.5 percent for the headline (+3.531 percent, with less rounding, versus +4.249 percent in May) and 2.6 percent for the core (+2.594 percent versus +2.851 percent previously). As has been the case since early spring, the headline index was influenced in no small part by war-driven volatility in energy prices. Specifically, as indicated in the Bureau of Labor Statistics release, the energy component was the largest contributor to the monthly decrease in the headline, more than offsetting increases in other areas including shelter and food – reflective of the easing in the cost of hydrocarbons following the signing of the US-Iran memorandum of understanding on June 17.

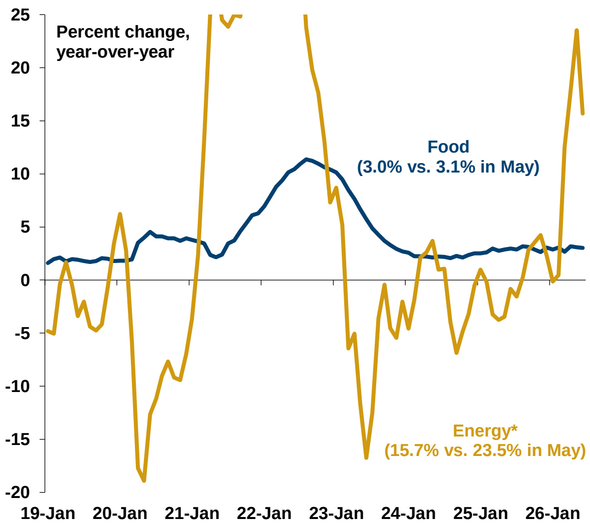
- Turning to the internals of the report, the energy index fell 5.7 percent in June, the largest one-month decline since April 2020 (+15.7 percent year-over-year versus +23.5 percent previously). Factoring into the latest easing, energy commodities decreased 9.5 percent (-13.5 percentage points to +27.1 percent year-over-year), influenced by a 9.7-percent decline in gasoline prices. Moreover, following six consecutive monthly increases, energy services dipped 0.7 percent (-1.4 percentage points to +3.9 percent year-over-year) – a change driven by a drop of 1.0 percent in electricity services after three consecutive advances (+4.0 percent year-over-year versus +5.9 percent in the prior month). The food category, meanwhile, posted an advance of 0.2 percent in June – a result in line with other recent readings (+3.0 percent year-over-year versus +3.1 percent previously). Costs of food at home registered a same-sized increase of 0.2 percent (+2.7 percent year-over-year, essentially unchanged from May), with increases of 1.2 and 0.6 percent, respectively, in the index for dairy and related products and the index for meats, poultry, fish, and eggs contributing to higher prices. Concurrently, costs for food away from home (i.e., restaurant meals) also posted 0.2-percent increase (not seasonally adjusted; -0.2 percentage point to +3.4 percent year-over-year).

CPI: Headline & Core



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Food & Energy

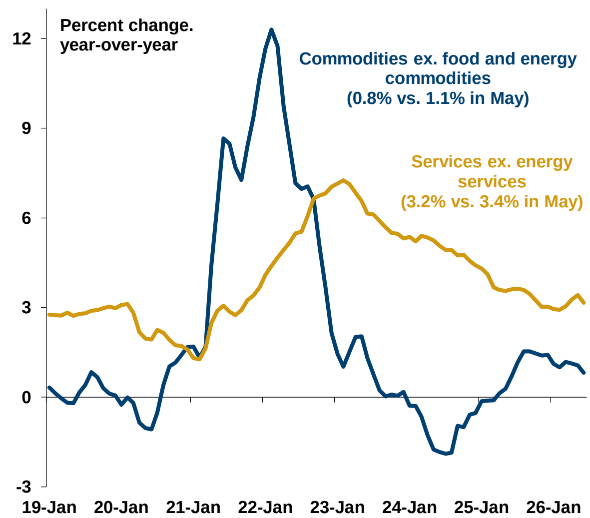


** COVID-related extremes truncated*
Source: Bureau of Labor Statistics via Haver Analytics

- Returning to the core, the index for commodities excluding food and energy commodities eased for the second straight month in June with a 0.1-percent decline (+0.8 percent year-over-year, down from +1.1 percent in May and the slowest advance since June 2025). While there were some hints of residual pressure from tariffs, the overall results were still encouraging. Standing out on the soft side, the index for used vehicles decreased 0.2 percent (+0.2 percentage point to -1.8 percent year-over-year) while that for new vehicles rounded up to no change (-0.024 percent with less rounding; +0.3 percentage point to +0.5 percent year-over-year). Additionally, the household furnishing and supplies index eased 0.1 percent, its fourth consecutive monthly decline (-1.0 percentage point to +1.3 percent year-over-year). Contrastingly, recreational commodities rose 0.9 percent, its largest one-month increase since January 2022 (+0.3 percentage point to +2.9 percent year-over-year).

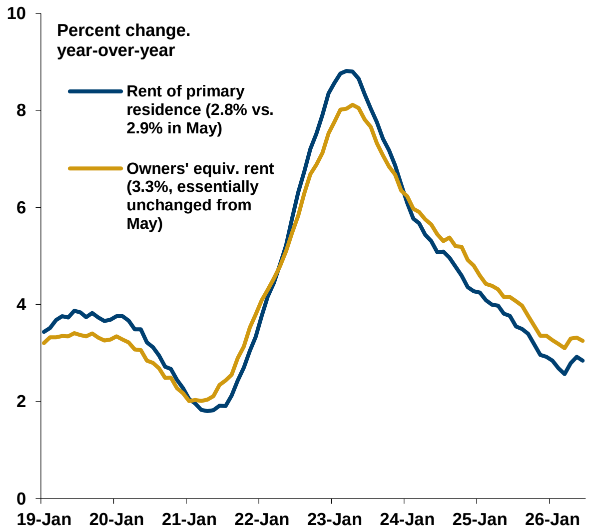
- Following several months of steady gains, the core services area rounded down to no change in June (+0.032 percent, with less precision; +3.2 percent year-over-year versus +3.4 percent previously). Contributing to the latest deceleration, the medical care services index eased 0.1 percent (-0.7 percentage point to +2.9 percent year-over-year). Curiously, the index for other lodging away from home (i.e., hotel fees), fell 2.3 percent – potentially suggestive of fading rather than firming pressure from the World Cup (-0.3 percentage point to +4.8 percent year-over-year). In addition, after posting +1.0-percent advances in each month of 2026 thus far, airline fares registered a more subdued increase of 0.2 percent in June (-0.2 percentage point to +26.5 percent year-over-year). Turning to housing, rent of primary residence rose a restrained 0.1 percent (-0.1 percentage point to +2.8 percent year-over-year) while owners' equivalent rent advanced 0.2 percent (+3.3 percent year-over-year, essentially unchanged from May). In context, the year-over-year trends for both components remain in line with pre-pandemic norms – which were previously broadly consistent with the 2 percent inflation target.

CPI: Core Goods & Core Services



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Housing



Source: Bureau of Labor Statistics via Haver Analytics

- All told, while the softer-than-consensus results were a welcome development, underlying inflation still remains well above the FOMC's inflation objective – a condition which will likely induce policymakers to keep the target range for the federal funds rate unchanged at their next gathering on July 28-29 (as opposed to a potential hike, a possibility mulled by Fed Governor Waller in his hawkish comments yesterday). As indicated by Chair Warsh in his prepared remarks for today's testimony before the House's Committee on Financial Services, "The members of our Committee have no tolerance for persistently elevated inflation. And we share a resolute commitment to restoring price stability." That in mind, with the ultimate impact from tensions in the Persian Gulf highly uncertain (especially in light of renewed hostilities), the FOMC will remain vigilant in the months ahead, with that watchfulness, for now, suggesting an extended hold in the policy rate at 3.50 to 3.75 percent.