

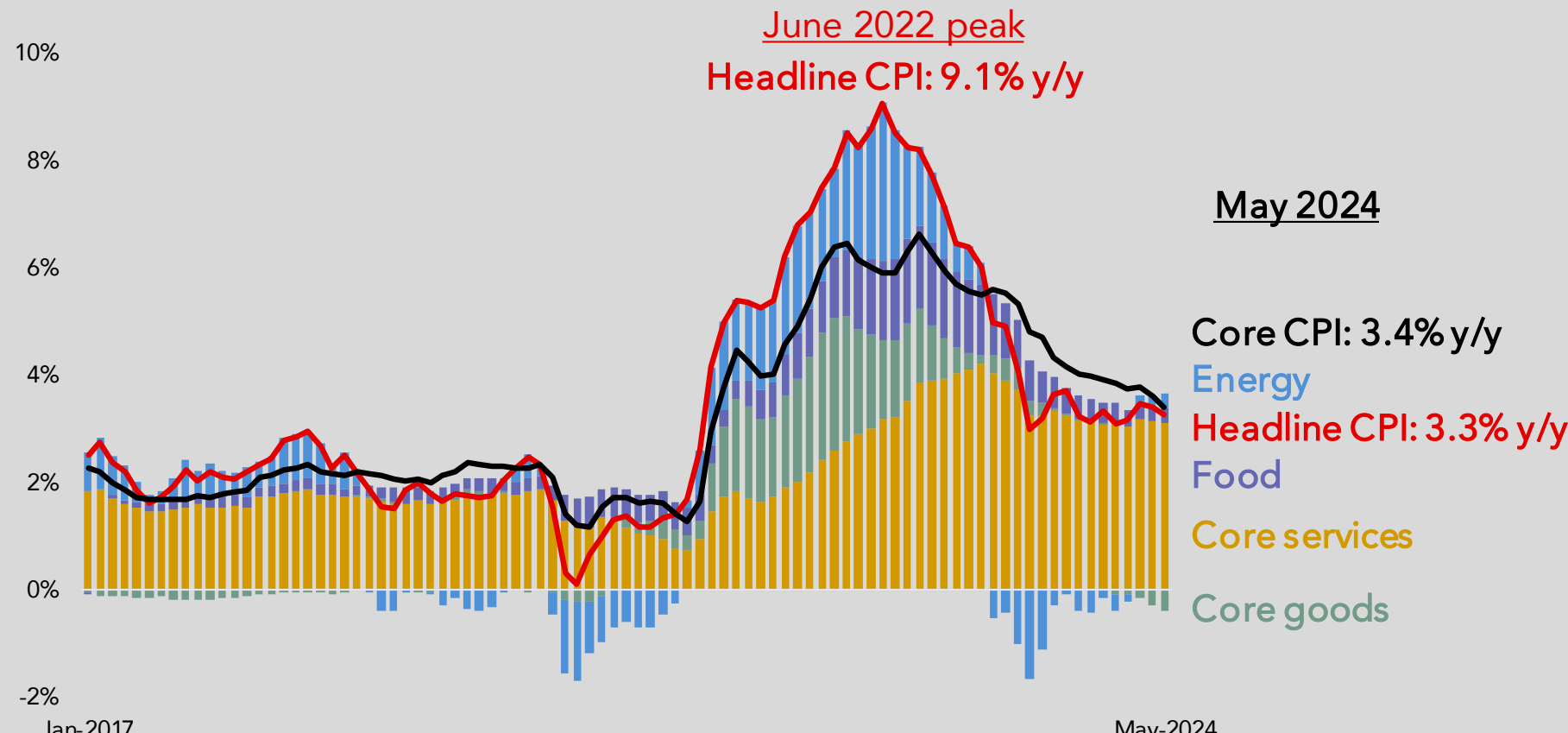
Chart of the Day

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US headline and core CPI came in lower than expected in May, on both a month-on-month and year-on-year basis. Headline inflation decelerated to 3.3% y/y, down from 3.4% y/y in April, while the monthly measure stayed flat, the first "unchanged" monthly reading in CPI since July 2022. A decline in gasoline prices of (-3.6% m/m) helped offset the +0.4% increase in shelter costs and +0.5% rebound in used vehicle prices. Core inflation increased 0.2% m/m and 3.4% y/y, the slowest annual pace in over three years. Following the print, equities rallied, while the US Dollar and US Treasury yields declined. The 2 year UST slipped nearly 20bps, the largest one day decline since December.

Breakdown of CPI by components



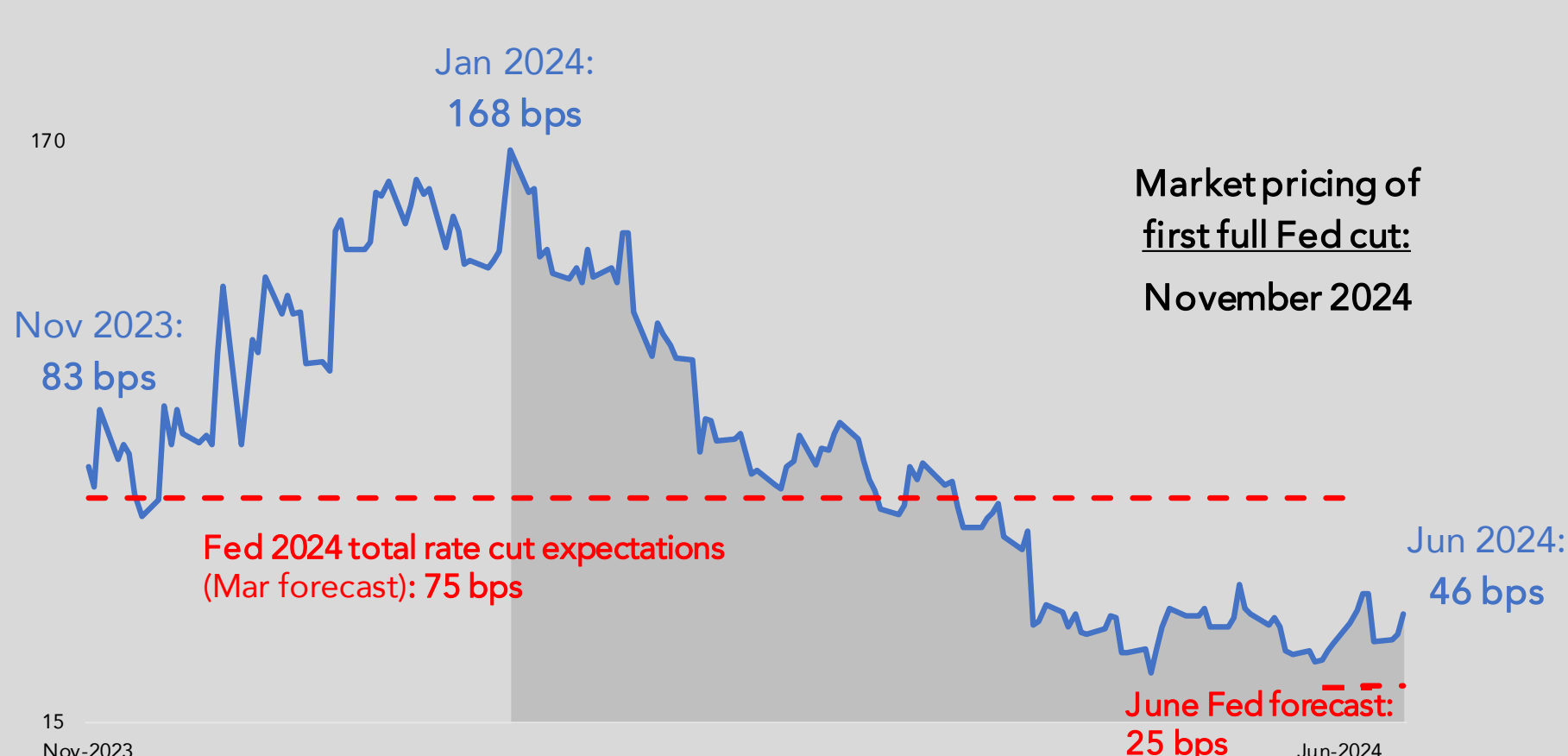
May CPI came in below market expectations on both a month-on-month and year-on-year basis. The core CPI index increased 0.2% m/m (vs. 0.3% expected), the first time since the October 2023 report that monthly core CPI has come in below the median forecast.

May CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	+3.3%	+3.4%	(-0.1%)
Headline CPI m/m	+0.0%	+0.1%	(-0.1%)
Core CPI y/y	+3.4%	+3.5%	(-0.1%)
Core CPI m/m	+0.2%	+0.3%	(-0.1%)

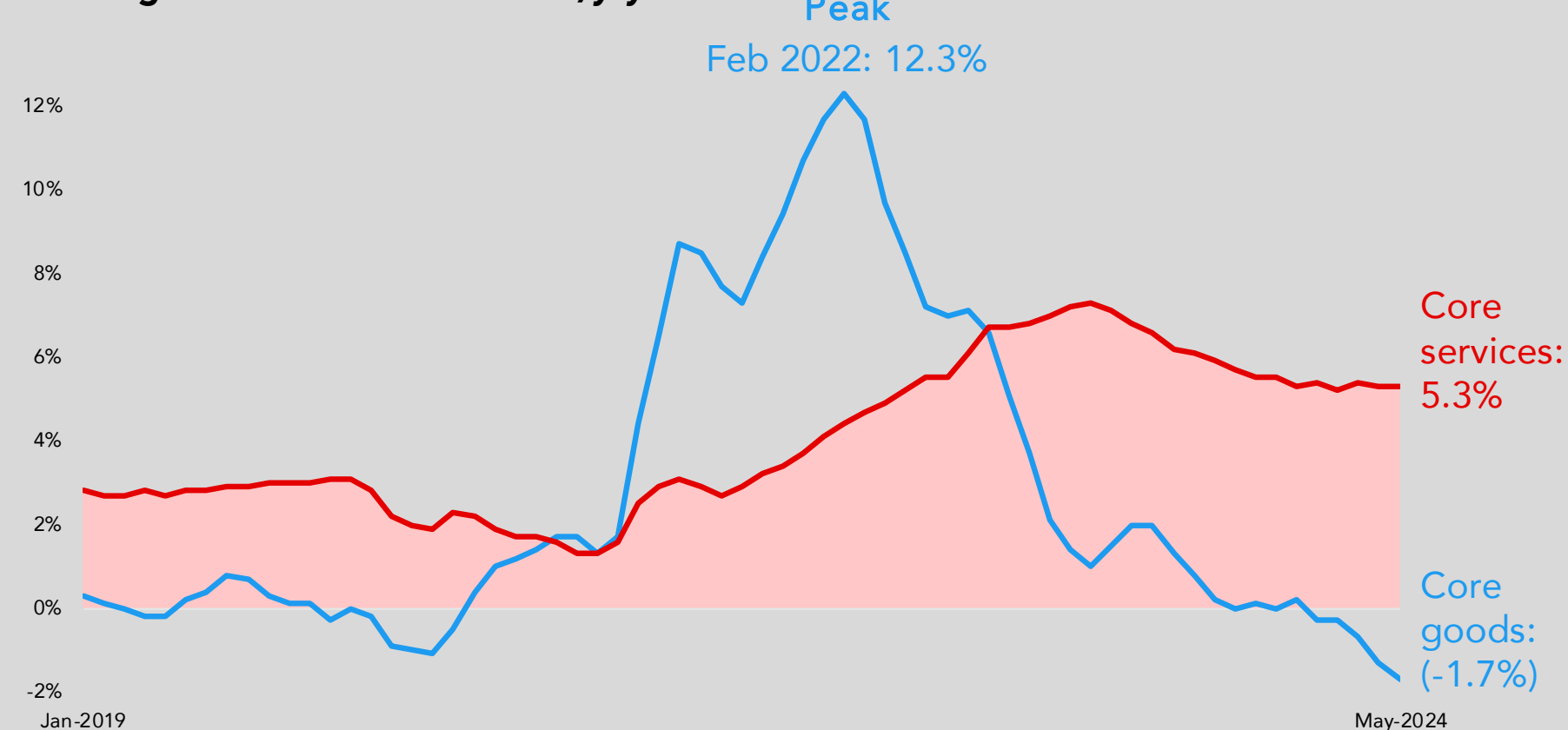
Today is the 7th time in recent history that the FOMC meeting and CPI release have fallen on the same day. Despite the softer inflation print, the Fed reinforced their "higher for longer narrative," lowering their 2024 rate cut expectations from 75 bps to 25 bps. The May CPI report initially revived the prospect of a Fed rate cut before the US Election, though the Fed's newest forecasts have pushed that probability lower. The first "full cut" is not expected until November.

Market implied total 2024 Fed rate cut expectations, bps



Core goods prices continued their deflationary trend, down (-1.7% y/y) and (-0.1% m/m). Core services prices were largely unchanged from April, the weakest since September 2021, driven by a decline in car insurance costs and the largest drop in airline fares in almost a year. The "supercore" services gauge, which excludes housing, dropped by (-0.04%), the first decline since 2021.

US core goods and services inflation, y/y



While m/m inflation data provides very useful information on the recent momentum in (dis)inflation, a look at today's CPI data on a y/y basis provides a useful lens on the categories in which the consumer is feeling the most cost pressure (and relief) relative to one year ago.

May US inflation by sector (y/y)

	Energy	Food	Core goods	Core services
Motor vehicle insurance			20%	
Transportation services			11%	
Photo equipment & supplies			9%	
Tobacco & smoking products			8%	
Veterinarian services			8%	
Hospital services			7%	
Motor vehicle maint. & Repair			7%	
Delivery services			7%	
Electricity	6%			
Nursing homes			6%	
Land-line phone services			6%	
Owners' equivalent rent			6%	
Rent of shelter			5%	
Shelter			5%	
Services less energy services			5%	
Water & sewerage maint.			5%	
Internet services			5%	
Funeral expenses			5%	
Day care and preschool			5%	
Laundry & cleaning services			5%	
Energy services	5%			
Food away from home		4%		
Recreation services			4%	
Garbage & trash collection			4%	
Energy	4%			
Meats		4%		
Financial services			3%	
Medicinal drugs		3%		
Medical care services		3%		
Eggs		3%		
School tuition		3%		
Professional services		2%		
Energy commodities	2%			
Intracity mass transit		2%		
Motor fuel	2%			
Technical & bus. school tuition		2%		
Alcoholic beverages		2%		
Physicians' services		1%		
Personal care products		1%		
Nonalcoholic beverages		1%		
College tuition and fees		1%		
Footwear		1%		
Food at home		1%		
Apparel		1%		
Cereals & bakery products		1%		
Fruits and vegetables		1%		
Cosmetics		0%		
Utility gas service	0%			
Housekeeping supplies		(-0%)		
Sporting goods		(-0%)		
Tools, hardware & supplies		(-1%)		
Music instruments & acces.		(-1%)		
New trucks		(-1%)		
New vehicles		(-1%)		
Educational books			(-1%)	
Jewelry and watches			(-1%)	
Tires			(-1%)	
Motor vehicle parts and equipment			(-1%)	
Moving, storage, freight expense			(-1%)	
Vehicle accessories			(-1%)	
Lodging away from home			(-1%)	
Pets & pet products			(-2%)	
Recreational reading			(-2%)	
Milk		(-2%)		
Wireless phone services			(-2%)	
Computers and smart home assistants			(-2%)	
Household furnishings & supplies			(-3%)	
Furniture & bedding			(-4%)	
Public transportation			(-5%)	
Appliances			(-5%)	
Outdoor equip. & supplies			(-5%)	
Airline fares			(-6%)	
Computer software and accessories			(-7%)	
Audio equipment			(-7%)	
TVs			(-7%)	
Health insurance			(-8%)	
Toys			(-8%)	
Car & truck rental			(-9%)	
Used cars and trucks			(-9%)	
Smartphones			(-12%)	

Source: (1-5) Bureau of Labor Statistics. CPI Report May 2024. Bloomberg. Data as of June 12, 2024. Goods is commodities less food and energy commodities. Services is less energy.

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"Macro stability isn't everything, but without it, you have nothing."