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US CPI: Party time

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Consumer Price Index (monthly change, %)	June 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024	June NSA YoY%
All items	-0.1	0.0	0.3	0.4	0.4	0.3	3.0
Ex-food/energy	0.1	0.2	0.3	0.4	0.4	0.4	3.3
• Ex-food	-0.1	0.0	0.4	0.4	0.5	0.3	3.1
• Ex-energy	0.1	0.2	0.3	0.3	0.3	0.4	3.1
Energy	-2.0	-2.0	1.1	1.1	2.3	-0.9	1.0
Services	0.1	0.2	0.4	0.5	0.5	0.7	5.0
Housing	0.2	0.3	0.2	0.4	0.4	0.6	4.4
Fuels & util.	-0.1	-0.1	-0.3	0.5	0.7	1.2	4.2
Food/beverages	0.2	0.1	0.0	0.1	0.0	0.4	2.2
• Food	0.2	0.1	0.0	0.1	0.0	0.4	2.2
Apparel	0.1	-0.3	1.2	0.7	0.6	-0.7	0.8
Transportation	-1.3	-1.1	0.7	0.8	1.4	-0.6	1.3
Medical care	0.2	0.5	0.4	0.5	0.0	0.5	3.3
Recreation	0.1	-0.2	0.2	-0.1	0.2	0.5	1.3
Education, comm.	-0.1	0.0	0.2	0.0	0.4	0.4	0.7
Other good, serv.	0.6	0.2	0.4	0.4	-0.3	0.5	4.2
Commodities	-0.4	-0.4	0.2	0.1	0.4	-0.3	-0.4

Source: Haver Analytics.

- Turn up the music, because the Fed's pivot party looks like it's about to officially get started after today's soft June CPI print. Even the hawks are invited. Core CPI prices rose 0.1% m/m in June, one tick below consensus expectations, and likely consistent with core PCE inflation below target in the month. Headline inflation also came below expectations, with prices falling by 0.1% whereas forecasters were expecting a 0.1% gain. In year-over-year terms, headline inflation came down three notches to 3.0%, and core was down one tick to 3.3%. The soft reading was mainly due to services prices weakening again, which came in at 0.1% compared to 0.2% in May. Most notably, shelter inflation edged down materially (a possible sign of more to come) and non-housing services inflation was weighed down again by transportation services. Core goods prices contracted slightly in the month. In three-month annualized terms, core CPI inflation moved down sharply to 2.1% in June from 3.3% the month prior and the six-month annualized rate moved down four notches to 3.3%, measures that the Fed is likely putting more weight on given the noise in monthly readings. That is a material resumption of progress and makes the Q1 flair up in price pressures feel like a distant memory. When combined with growing downside risks to the labor market that are top of mind for Powell, today's data removes almost all doubt that the Fed will start the easing cycle this year. We continue to expect the Fed will cut twice this year, starting in September.

- As of writing, the market is aligned with our view with two cuts essentially fully priced in, lining up for September and December. The probability of a July move is flat, as Fed speak has not given the market enough to entertain this possibility. We would expect some near-term forward guidance at some point, as is the Fed's style, to make it absolutely clear.
- The big story in the details of today's report was the softening of shelter inflation. Shelter prices edged down to 0.2% m/m from 0.4%, where it had essentially been stuck for almost a year. Rent inflation and Owner's Equivalent Rent (OER) both saw a material slow down, coming in at 0.3% compared to 0.4% the month prior. These main categories of shelter inflation are now about back in their pre-pandemic range from 2018 to 2019. Just goes to show you how quickly lost ground can be made up and the Fed's unwavering confidence that market-based rents will eventually feed into shelter, even after many upsides surprises this past year, was good form. Of course, rent and OER have not been immune to spikes, and today's data does not necessarily confirm a new slower trend has begun but given what we know about the direction of market-based rents, it is highly encouraging and first-bump worthy. Amplifying the slowdown in shelter costs was a steep drop in the lodging away from home category (or hotel prices), which dropped by 2% in the month. That is the third consecutive month of decline in that category and perhaps a sign that business travel and tourism is drying up. But this is a historically a choppy category and we will wait for more data to see how enduring that trend is.
- Non-housing services, which matters more for PCE inflation, was flat for the second consecutive month. Transportation services contracted again by 0.5% in month, this time due to a further deep plunge in airfares (-5% m/m in June). Car insurance rebounded in June rising by 0.9%, but that is below 1.3% average seen since 2022. Other non-housing services categories remain subdued. The outlook for this category is critical to the Fed achieving 2% on a sustained basis. And there is certainly encouraging signals with the labor market back to balance and wage growth slowing. But there will be no doubt be more "bumps" on the way, due to influences from forces such as commodity prices and regulated prices that impact non-housing services. The Fed won't say it, but the reality is they looked through a large run up in non-housing costs because they did not view it as demand driven. With inflation expectations looking tame again, there is no doubt that is the game plan from here on out.
- Core goods contracted by 0.1% in the month, largely because used car prices fell again (-1.5%). A rebalancing of the auto sector is likely going to continue to put downward pressure on goods as auction prices for used cars continue to edge down. Stripping out used cars, the rest of core goods was flat in the month. Supply in the global goods market remains robust and the US consumer demand for durables looks like it has come down a fear gears after the spending spree in 2023. We have long been in the camp that upward pressure on inflation from core goods in 2024 was unlikely.

Implications & actions

Re: Economic forecast — Today's report is very close to sealing the deal for September. With the Fed worried about the labor market and downward trend in services inflation starting to take shape, dialing down restrictive policy is a wise move. Some near-term forward guidance from Powell to make September absolutely crystal clear seems likely. We continue to expect the Fed will ease twice this year -- in September and December.

Re: Markets —Bond yields dropped after core inflation eased more than expected.

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