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## May Consumer Price Index: No Clear Signal In Mixed May Data

- › The total CPI **rose** by 0.5 percent in May (up 0.473 percent unrounded); the core CPI **rose** by 0.2 percent (up 0.208 percent unrounded)
- › On a year-over-year basis, the total CPI is **up** 4.2 percent and the core CPI is **up** 2.9 percent as of May

The total CPI rose by 0.5 percent in May, matching the consensus forecast but topping our forecast of 0.4 percent, while the core CPI rose by 0.2 percent, matching our forecast but one-tenth lighter than expected by the consensus. As of May, the total CPI is up 4.2 percent and the core CPI is up 2.9 percent, each one-tenth more than our forecast even if only barely in the case of the core CPI as our unrounded forecast yielded an over-the-year increase of 2.84 percent compared to the actual increase of 2.85 percent. But, wrong is still wrong, and on that point the details of the core CPI played out a bit differently than we had anticipated, even though we ended up in the same spot, i.e., a 0.2 percent increase. Higher gasoline prices were the main force behind the increase in the total CPI, contributing two-tenths of a point to the monthly change. Though core goods prices were better behaved than we had anticipated, core services price pressures excluding rents remain a tough out. As anticipated, the May increase in rents was more moderate than that seen in April as the April numbers reflecting the rollover of part of the housing survey that effectively washed the missing observation from October 2025 out of the data. We don't see the May CPI data as shedding much light on where inflation may roam from here on. After all, through the first two weeks of June retail gasoline prices are down by over thirty cents a gallon from where they ended May, all but ensuring gasoline will be a drag on the June increase in the total CPI and increasing the likelihood that May's year-on-year increase will mark the peak of this energy-driven push higher. At the same time, we find some of the components of the May data on core goods prices to be a bit curious, particularly given ongoing supply chain disruptions and higher costs of transporting goods and are not yet sold on how much further room there is for services price disinflation. Either way, the reality is that prices continue to rise and while they may do so at a slower pace, that pace is still well on the wrong side of the FOMC's target, which will probably be sufficient to keep the discussion of Fed funds rate hikes (which we see as unlikely) alive for a bit longer.

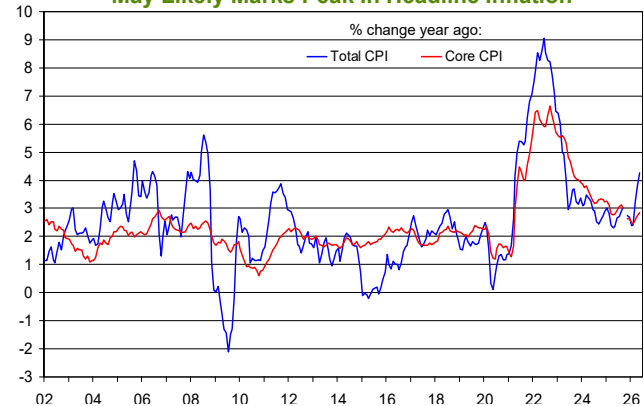
Retail gasoline prices were up by 7.0 percent on a seasonally adjusted basis, larger than our forecast anticipated), the biggest contributor to the 3.9 percent increase in the overall index of energy prices. Electricity rates were up by 0.6 percent after having spiked by 2.1 percent in April. While our forecast anticipated a more moderate increase in prices for food consumed at home after a 0.7 percent increase in April, the 0.1 percent increase in May was well smaller than we anticipated. The details of the individual categories remain a hodge podge of very large changes and considerable month-to-month volatility, with the net result being, at least as of yet, little reflection of higher costs for producing and shipping food that have been well chronicled since the start of the conflict with Iran. As we anticipated, prices for food consumed away from home rose by 0.3 percent in May, though here too we've been expecting more forceful upward pressures.

Core goods prices are reported to have fallen by 0.1 percent in May, with sharp divergences across the individual components. New vehicle prices are reported to have fallen by 0.3 percent, with a larger decline in truck prices than in car prices, but it could be that dealers are resorting to discounts to help keep new vehicle sales running at what has been a fairly steady clip. Prices for used vehicles were up by 0.1 percent, smaller than what we anticipated and leaving the CPI measure at odds with market-based measures. While appliance prices rose in May, furniture prices continued to fall, as did prices for electronics. Apparel prices were up by 0.3 percent, but this reflects a smaller decline in not seasonally adjusted apparel prices than typically seen in May translating into a gain on a seasonally adjusted basis, the second straight month in which this has been the case.

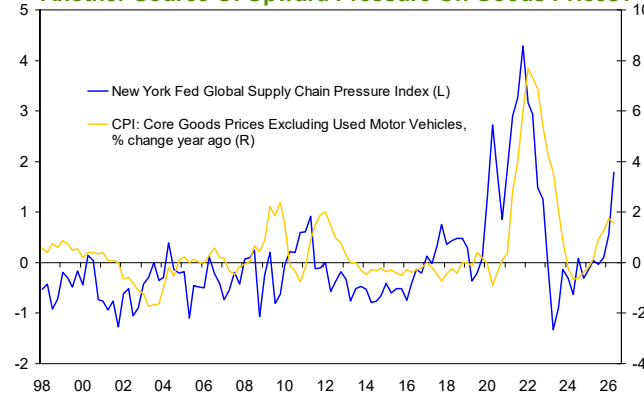
The smaller increase in rents weighed on the monthly increase in core services prices, but the year-on-year change of core services prices excluding rents is still accelerating. The pace of increases in air fares and lodging rates slowed in May, but less than we expected. While this could be tied to demand, actual or anticipated, around the World Cup, we expect further moderation in these components. More broadly, prices of discretionary services could soften as flagging real income growth is likely to weigh on demand.



### May Likely Marks Peak In Headline Inflation




### Another Source Of Upward Pressure On Goods Prices?




### Services Price Inflation Not Going Quietly

