Consumer Price Index June 2024

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Time to cut as inflation is no longer the only risk we face

- Disinflation momentum was confirmed in June. Headline Consumer Price Index (CPI) fell 0.1% month over month (m/m) (against an expected 0.1% increase) with energy prices down 2% and food prices up 0.2%. Core CPI rose a modest 0.1% (0.06% to be precise) — its lowest advance since January 2021 and lower than the average 0.3% m/m gain in the prior three months.
- As a result, headline CPI inflation eased 0.3 percentage point (ppt) to 3.0% year over year (y/y) — the lowest since March 2021 — while core CPI inflation eased a tick to 3.3% y/y — the lowest since April 2021.
- The CPI report revealed consumer pricing sensitivity and cooler household spending have led to reduced pricing power and an increased number of incentives and promotions to attract consumers.
- Core goods prices fell 0.1% — they have risen only once in the past 12 months — as new vehicle prices fell for a sixth consecutive month, down 0.2%. Used car prices plunged 1.5% while apparel prices only rose 0.1%.
- Meanwhile core services prices only rose 0.1% - the weakest gain since July 2021 — as shelter costs only grew 0.2% — the smallest advance since August 2021. Rent and owners' equivalent rent both rose 0.3% on the month, posting their weakest gains since mid-2021. Shelter cost disinflation is likely to continue apace in the coming months helping drive lower headline and core inflation. Hotel prices plunged 2.5% in June while airfares dropped 5.0%, indicating more consumer prudence with travel and leisure activities.
- The Fed's favored (but perhaps misleading) supercore CPI measure — core services excluding shelter costs — fell 0.05%, the second consecutive decline since late 2021 and much lower than the average 0.5% gain in the first four months of the year.
- Short-term inflation dynamics softened smartly: on a three-month annualized basis, headline CPI inflation eased 1.7ppt to 1.1% while core CPI inflation fell 1.2ppt to 2.1%. On a six-month annualized basis, headline CPI inflation eased 0.6ppt to 2.8% and core CPI inflation eased 0.4ppt to 3.3%.
- Given unfavorable year-on-year comparisons, CPI inflation is likely to hover at an "uncomfortable plateau" this summer. Still, softer consumer spending growth due to increased pricing sensitivity, reduced markups, moderating wage growth and declining rent inflation will continue to provide a healthy disinflationary impulse.

- As Fed Chair Jerome Powell stated during the congressional hearings, inflation is no longer the only risk we face. Maintaining excessively restrictive monetary policy when the labor market appears to be fully back in balance could lead to an undesired weakening of employment growth and the economy. While it's too late for Fed policymakers to signal a late-July rate cut, this would have been optimal. We expect the July Federal Open Market Committee statement may signal openness to a rate cut in September. We foresee two 25 basis points rate cuts before year-end, in September and December.

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