

Dipping US inflation to bring Fed closer to rate cut

STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

Slowing US Inflation bolsters the case for a Fed rate cut within this year

Parameter	Weights	Y-o-Y Change %			M-o-M Change %		
		Apr-24	May-24	Jun-24	Apr-24	May-24	Jun-24
Headline	100.0	3.4	3.3	3.0	0.3	0.0	-0.1
Food	13.4	2.2	2.1	2.2	0.0	0.1	0.2
Energy	7.0	2.6	3.7	1.0	1.1	-2.0	-2.0
Core	79.6	3.6	3.4	3.3	0.3	0.2	0.1
Core Goods	18.6	-1.3	-1.7	-1.8	-0.1	0.0	-0.1
New Vehicles	3.6	-0.4	-0.8	-0.9	-0.4	-0.5	-0.2
Used cars and trucks	1.9	-6.9	-9.3	-10.1	-1.4	0.6	-1.5
Apparel	2.6	1.3	0.8	0.8	1.2	-0.3	0.1
Medical care goods	1.5	2.5	3.1	3.1	0.4	1.3	0.2
Core Services	61.1	5.3	5.3	5.1	0.4	0.2	0.1
Shelter	36.2	5.5	5.4	5.2	0.4	0.4	0.2
Transportation	6.5	11.2	10.5	9.4	0.9	-0.5	-0.5
Medical care services	6.5	2.7	3.1	3.3	0.4	0.3	0.2

Source: US Labour Bureau and Statistics

- On a yearly basis, headline Consumer Price Index for all Urban Consumers (CPI-U) cooled to 3 per cent in Jun'24, the lowest reading recorded since December 2021. The pace of inflation cooled from 3.3 per cent in May'24. The all items less food and energy index, or Core inflation, also rose by 3.3 per cent, marking the smallest increase in 12 months since April 2021.
- The Energy index increased by 1 per cent while the Food index rose by 2.2 per cent in Jun'24 on an annual basis. The continuous decline in energy prices, particularly gasoline could result in lower operating costs for transportation and manufacturing sectors.
- On a seasonally adjusted basis, the CPI-U Index declined 0.1 per cent in June'24, following a month of no change in May'24. The Energy index mirrored the 2 per cent decline in May, on the back of a sharp 3.8 per cent decline in gasoline. The Food index saw a slight increase of 0.2 per cent in June.
- The core CPI-U rose 0.1 per cent in June, a smaller increase than 0.2 per cent recorded in May.
- The decline in inflation print in June vis-à-vis May indicates a potential easing of inflationary pressures in the near term. This decline, especially in energy prices, could alleviate cost pressures for consumers and businesses.
- The smaller y-o-y rise in the all items index suggests a possible stabilization or slowing of inflation.
- Shelter prices, which have the highest weight within services recorded a month-on-month increase of 0.2 per cent, the smallest such rise since August 2021.
- The softening inflation will give confidence to the Fed on the continuing monetary transmission in the US economy.

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