

US inflation eases to 4% in May, lowest in 2 years

Fed now expected to keep interest rates unchanged at this week's meeting

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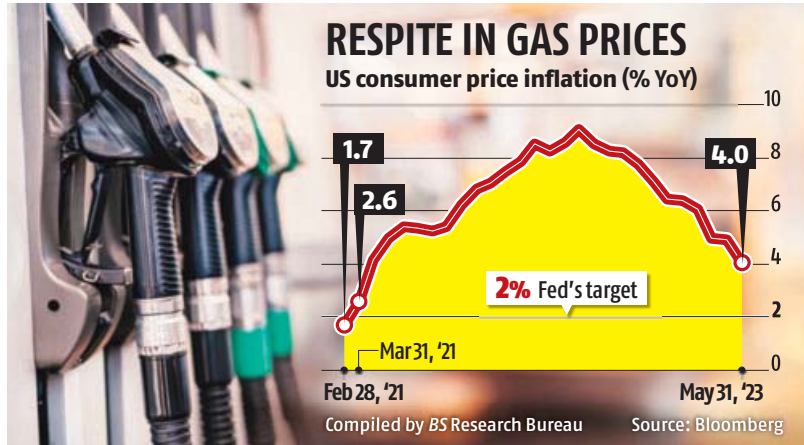
US consumer prices barely rose in May and the annual increase in inflation was the smallest in more than two years, though underlying price pressures remained strong, supporting the view that the Federal Reserve would keep interest rates unchanged on Wednesday while adopting a hawkish posture.

The smaller-than-expected rise in the Consumer Price Index, reported by the Labor Department on Tuesday, reflected decreases in the costs of energy products and services, including gasoline and electricity. But rents remained sticky and prices of used cars and trucks rose further. The report was published as Fed officials prepared to gather for a two-day policy meeting.

"It would likely have taken a meaningful upside inflation surprise to convince the Fed to hike in June," said Seema Shah, chief global strategist at Principal Asset Management. "Yet, with annual core inflation actually rising further in May and coming hot off the heels from the very strong jobs report, the July Fed meeting is very much live."

The CPI increased 0.1 per cent last month as gasoline prices fell. The CPI gained 0.4 per cent in April. In the 12 months through May, the CPI climbed 4.0 per cent. That was the smallest year-on-year increase since March 2021 and followed a 4.9 per cent rise in April.

The annual CPI peaked at 9.1 per cent in June 2022, which was the biggest increase since November 1981.



Revenge spending, which added to price hikes, is cooling down

JEANNA SMIALEK

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After two years of spending heavily on vacations and other experiences that they were deprived of during pandemic lockdowns, Americans may be on the brink of pulling back — a cool-down that could help slow inflation.

The nation witnessed two years of red-hot "revenge spending," the name economists and corporate executives gave to a spike in recreational spending that followed coronavirus lockdowns. As demand rose, so did prices for airfares,

hotels and other sought-after services. But many of those price categories are now cooling. Hotel prices have recently climbed much more slowly on a year-over-year basis, and airfares are flatlining. If that trend continues this summer, it could contribute to a slowdown in overall services inflation, something the Fed has been watching and waiting for. "We see some slowing in so-called revenge categories," said Yelena Shulyatyeva, senior US economist at BNP Paribas.