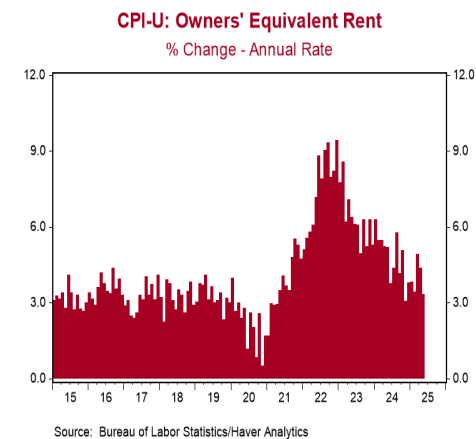
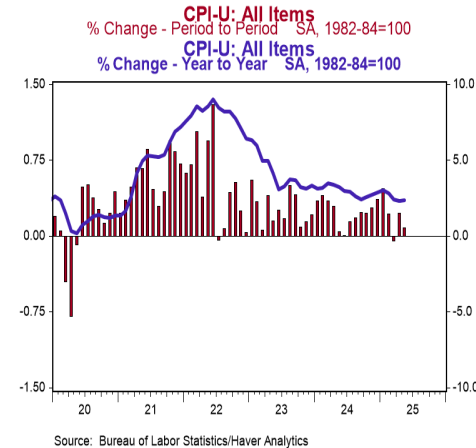


May CPI

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- The Consumer Price Index (CPI) rose 0.1% in May, below the consensus expected +0.2%. The CPI is up 2.4% from a year ago.
- Food prices rose 0.3% in May, while energy prices declined 1.0%. The “core” CPI, which excludes food and energy, increased 0.1% in May, below the consensus expected +0.3%. Core prices are up 2.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.3% in May and are up 1.4% in the past year. Real average weekly earnings are up 1.5% in the past year.

Implications: While the Federal Reserve and many other analysts remain focused on tariffs, inflation came in below expectations for the fourth month in a row in May, rising only 0.1%. Like we’ve been saying for some time, the link between tariffs and inflation is overrated. Yes, tariffs can raise prices for the tariffed items, but they leave less money left over for other goods and services. They shuffle the deckchairs on the inflation ship, not how high or low the ship sits in the water. That’s up to the money supply, which has been essentially flat since April 2022. We believe this relative monetary tightness is why inflation has slowed recently, up at a 1.0% annualized rate in the last three months. Diving into the details, food prices rose 0.3% in May while energy prices declined 1.0%, driven by a 2.6% drop in gasoline prices. “Core” prices, which strip out food and energy, rose 0.1% in May versus a consensus expected +0.3%. Although core inflation has been much harder to subdue than overall inflation and is still up 2.8% in the last twelve-months, it has finally started following suit, up 1.7% annualized in the last three months. Notably, prices continue to fall in categories many expected to be impacted by tariffs, including apparel (-0.4) and new vehicles (-0.3%). We also like to follow “Supercore” inflation – a subset category of prices that excludes food, energy, other goods, and housing rents. Fed Chair Jerome Powell said back in 2022 that they follow this category closely, though he stopped mentioning it when this measure stopped showing progress versus inflation. However, it appears the tide has finally turned for the category, with supercore prices up at just a 0.1% annualized pace in the last three months, while the year-ago comparison has fallen from 4.1% in January to 2.8% in May. That’s so much progress Powell might mention it next week at his press conference! Notable decliners this month within the supercore category were prices for airline fare (-2.7%) and hotels (-0.1%). Although inflation is still above the Fed’s 2.0% target, given the lags in monetary policy and slow growth in the M2 measure of the money supply, we believe it’s time for the Fed to consider reducing short-term rates slightly in the months ahead.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	May-25	Apr-25	Mar-25	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.1%	0.2%	-0.1%	1.0%	2.6%	2.4%
Ex Food & Energy	0.1%	0.2%	0.1%	1.7%	2.6%	2.8%
Ex Energy	0.2%	0.2%	0.1%	1.8%	2.7%	2.8%
Energy	-1.0%	0.7%	-2.4%	-10.4%	1.9%	-3.5%
Food	0.3%	-0.1%	0.4%	2.6%	3.0%	2.9%
Housing	0.3%	0.5%	0.3%	4.2%	4.2%	4.0%
Owners Equivalent Rent	0.3%	0.4%	0.4%	4.2%	3.9%	4.1%
New Vehicles	-0.3%	0.0%	0.1%	-0.8%	0.2%	0.4%
Medical Care	0.3%	0.5%	0.2%	3.9%	3.2%	2.5%
Services (Excluding Energy Services)	0.2%	0.3%	0.1%	2.3%	3.2%	3.6%
Real Average Hourly Earnings	0.3%	0.0%	0.4%	2.5%	0.9%	1.4%

Source: U.S. Department of Labor