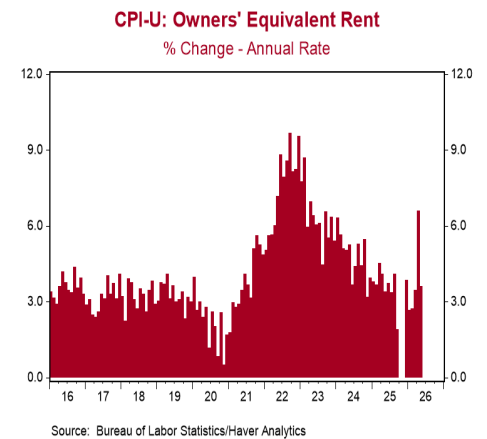
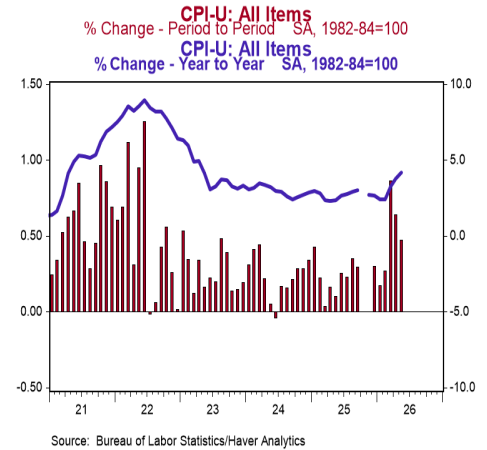


May CPI

Andrew Opdyke, CFA – Senior Economist
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist

- The Consumer Price Index (CPI) rose 0.5% in May, matching consensus expectations. The CPI is up 4.2% from a year ago.
- Energy prices increased 3.9% in May, while food prices rose 0.2%. The “core” CPI, which excludes food and energy, increased 0.2% in May, below the consensus expected +0.3%. Core prices are up 2.9% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in May and are down 0.7% in the past year. Real average weekly earnings are down 0.4% in the past year.



Implications: The ongoing conflict in the Middle East continues to dominate the inflation data, as consumer prices rose 0.5% in May after outsized increases in March and April. More than half of the May increase came from energy, where gasoline jumped 7.0%. The “core” CPI, which excludes food and energy, rose a more modest 0.2% in May, below the consensus expected +0.3%. Consumer prices are up 4.2% in the past year, the largest twelve-month increase since early 2023, while “core” prices have increased 2.9% in the past year, nearly identical to the 2.8% pace for the twelve months ending May 2025. While we expect the effects of higher energy costs to largely reverse once the conflict ultimately winds down, the timing remains uncertain, leaving the Federal Reserve with little conviction as the FOMC meets next week for the first time under new Chair Kevin Warsh. In addition to our first look at a Chair Warsh press conference, next week’s meeting will also include economic forecasts (the dot plots) from FOMC members, so we will get a chance to see how long the Fed expects inflation to stick around. While we may disagree on how long price pressures are likely to continue, what is clear is that inflation remains well above the Fed’s 2.0% target no matter how you cut it. Beyond food and energy, the May increase was once again led by housing rents (those for actual tenants as well as the imputed rental value of owner-occupied homes), which are the largest components in the index. Recent data on both home prices and rents suggest that housing inflation should moderate in the months ahead following the April surge which was a statistical quirk related to a lack of comparison data due to last year’s government shutdown. Other notable movers in the core group include airline fares (+2.7%), communication (+1.3%), and hospital services (+0.7%), which were partially offset by falling prices for auto insurance (-1.7%) and prescription drugs (-0.9%). The worst news in today’s report was that wages continue to lose ground to inflation, as “real” inflation-adjusted hourly earnings declined 0.1% and are now down 0.7% in the past year. Between large tax returns and a decline in the saving rate, consumers haven’t yet pulled back on spending in other categories to offset higher energy costs, but that can’t last. We will continue to focus on developments in the M2 money supply, which we believe is the most reliable tool for forecasting sustained inflation and which suggest that once the Iran War is resolved, inflation is likely to drop faster than most investors expect.

CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	May-26	Apr-26	Mar-26	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.5%	0.6%	0.9%	8.2%	5.6%	4.2%
Ex Food & Energy	0.2%	0.4%	0.2%	3.2%	3.1%	2.9%
Ex Energy	0.2%	0.4%	0.2%	3.1%	3.2%	2.9%
Energy	3.9%	3.8%	10.9%	104.4%	41.5%	23.5%
Food	0.2%	0.5%	0.0%	2.6%	3.8%	3.1%
Housing	0.2%	0.7%	0.3%	5.2%	4.3%	3.6%
Owners Equivalent Rent	0.3%	0.5%	0.3%	4.5%	3.8%	3.3%
New Vehicles	-0.3%	-0.2%	0.1%	-1.3%	-0.2%	0.2%
Medical Care	0.3%	-0.1%	-0.2%	0.3%	2.4%	2.6%
Services (Excluding Energy Services)	0.3%	0.5%	0.2%	4.2%	4.0%	3.4%
Real Average Hourly Earnings	-0.1%	-0.5%	-0.6%	-4.8%	-2.4%	-0.7%

Source: Bureau of Labor Statistics