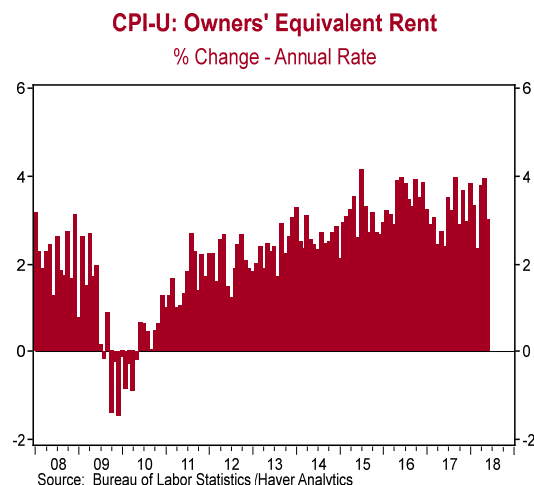
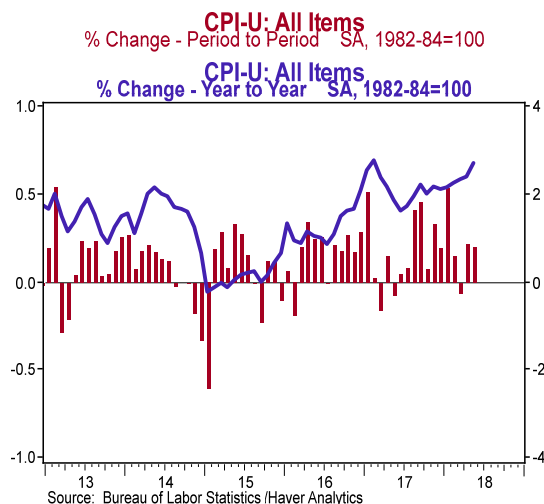


# May CPI

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- The Consumer Price Index (CPI) rose 0.2% in May, matching consensus expectations. The CPI is up 2.8% from a year ago.
- Energy prices increased 0.9% in May, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.2% in May, also matching consensus. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in May but are unchanged in the past year. Real average weekly earnings are up 0.3% in the past year.

**Implications:** Rising costs for gasoline and housing led the consumer price index 0.2% higher in May, continuing the uptrend in inflation that started in late 2015. Consumer prices are now up 2.8% in the past year, the largest twelve-month increase since early 2012. More important than reaching a recent high, consumer price inflation has now exceeded 2.0% on a twelve-month basis in each of the last nine months. In other words, this isn't a blip higher that is likely to reverse in a month or two ahead. The (modest) pickup in inflation that the Fed has been looking for is here. Now the onus is on the Fed not to fall behind the curve. Taking a deeper look at today's report, energy prices as a whole rose 0.9% in May, with a jump in gasoline prices only partially offset by declining costs for natural gas (think home heating) as the US saw the warmest May on record. Meanwhile food prices were unchanged in May as lower costs at the grocery store offset increased prices for eating out. Strip out the typically volatile food and energy components, and “core” prices increased 0.2% in May and are now up 2.2% in the past year. A closer look at “core” prices shows housing once again led the increase, and we expect housing costs to continue to be a key driver of overall inflation in year ahead. On the wages front, real average hourly earnings rose 0.1% in May. These inflation-adjusted hourly earnings have shown little movement over recent months, however this earnings data does not include irregular bonuses – like the ones paid by companies after the tax cut. We expect a visible pickup in wage pressures in the year ahead. Paired with continued strength in employment, the trend in inflation has essentially locked in a rate hike at tomorrow's Fed meeting, and we expect two more hikes (likely in September and December) to follow, for a total of four hikes in 2018.



<b>CPI - U</b>	<b>May-18</b>	<b>Apr-18</b>	<b>Mar-18</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Consumer Price Index</b>	<b>0.2%</b>	0.2%	-0.1%	1.5%	2.5%	2.8%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.1%	0.2%	1.8%	2.5%	2.2%
<b>Ex Energy</b>	<b>0.2%</b>	0.1%	0.2%	1.8%	2.3%	2.1%
<b>Energy</b>	<b>0.9%</b>	1.4%	-2.8%	-2.0%	4.8%	11.7%
<b>Food</b>	<b>0.0%</b>	0.3%	0.1%	1.7%	1.6%	1.2%
<b>Housing</b>	<b>0.2%</b>	0.3%	0.3%	3.2%	3.2%	3.0%
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	0.3%	0.3%	3.6%	3.4%	3.4%
<b>New Vehicles</b>	<b>0.3%</b>	-0.5%	0.0%	-0.5%	-0.3%	-1.1%
<b>Medical Care</b>	<b>0.2%</b>	0.1%	0.4%	2.8%	2.7%	2.4%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.2%	0.3%	2.8%	3.1%	3.0%
<b>Real Average Hourly Earnings</b>	<b>0.1%</b>	0.0%	0.3%	1.5%	0.4%	0.0%

Source: U.S. Department of Labor