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### May Consumer Price Index: Not Here Yet, Or Just Not Coming?

- The total CPI rose by 0.1 percent in May (up 0.081 percent unrounded); the core CPI rose by 0.1 percent (up 0.130 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.4 percent and the core CPI is up 2.8 percent as of May

The total CPI rose by 0.1 percent in May, matching our forecast but below the consensus forecast of a 0.2 percent increase, while the core CPI was also up by 0.1 percent, lighter than both our forecast (0.2 percent) and the consensus forecast (0.3 percent). As of May, the total CPI is up 2.4 percent year-on-year with the core CPI up 2.8 percent. In our preview of the May data, we noted that we did not yet expect to see significant and broadly based evidence of higher tariffs pushing up goods prices, and we also pointed to seasonal adjustment as weighing on prices of new and used motor vehicles. While we were correct on those points, the drag on vehicle prices from seasonal adjustment was larger than we anticipated, and we did not anticipate the decline in apparel prices that weighed on core goods prices. As we anticipated, softness in core services prices acted as a weight on the core CPI. Though some are pointing to the May CPI data as evidence that higher tariffs do not matter, we see it as more a question of when, not if, the impact of higher tariffs will be more visible in core goods prices and have been consistent in laying out how we think this will play out. We've argued that, at least initially, firms would absorb much of the hit from higher tariffs until there is greater clarity on where trade policy will ultimately land, and we've also pointed to significant inventory accumulation ahead of higher tariffs being imposed as acting as a buffer. Over time, however, we see both of these effects fading, which in turn means greater, and more broadly based, upward pressure on core goods prices. We've also, however, argued that faster services price disinflation will mitigate the impact of accelerating goods price inflation on the measures of overall inflation. Though there is still ample time for us to be proven wrong on these points, at least thus far we've seen nothing that would make us alter our view of how all of this ultimately plays out.

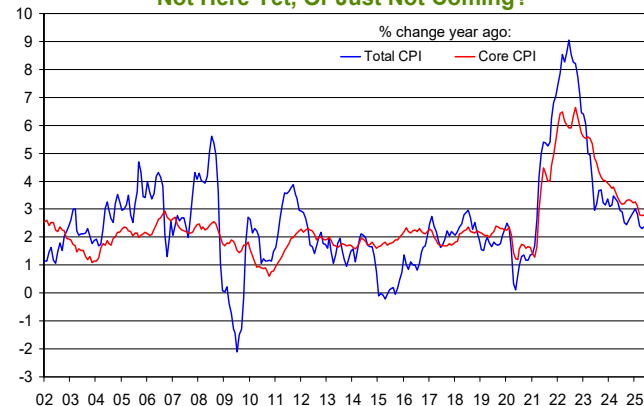
The overall index of energy prices fell by 1.0 percent in May, with retail gasoline prices down 2.6 percent on a seasonally adjusted basis, reflecting an atypical May decline on a not seasonally basis being amplified by seasonal factors geared toward higher prices. Though prices for residential gas service fell, electricity prices posted another hefty increase, contrary to our expectations and thus setting a higher base for what are widely expected to be even larger increases over the summer months. The overall index of food prices rose by 0.3 percent in May, with prices for food consumed at home more than making up for the surprise decline in April with a 0.3 percent increase. Prices for food consumed away from home also rose by 0.3 percent, ending a run of three straight months of 0.4 percent increases. It is interesting to note that the "moderation" in this category is due to full-service restaurant prices posting their smallest monthly advance since January.

Core goods prices were flat in May, in part due to declines in prices for new motor vehicles (down 0.3 percent) and used motor vehicles (down 0.5 percent). As we've noted, however, this is a function of friendly seasonal adjustment – unadjusted prices of used vehicles were up 0.7 percent in May. We've flagged motor vehicles as one component of core goods prices in which prices will begin to rise at a much faster rate over the summer months. That said, the BLS's measure of core goods prices excluding used vehicles, which we see as the better gauge of underlying core goods price pressures, was also flat in May and is up just 0.1 percent year-on-year. Thanks to a larger than normal May decline on a not seasonally adjusted basis, apparel prices fell by 0.4 percent on a seasonally adjusted basis. Though prices of major appliances were up 4.3 percent in May after a 1.3 percent increase in April, furniture prices were down and electronics prices were mixed, and it is noteworthy that prices for smartphones were down 1.6 percent and are down 14.3 percent year-on-year. These are some of the categories, along with apparel, in which we'll be watching in the months ahead for signs of tariff pass-through.

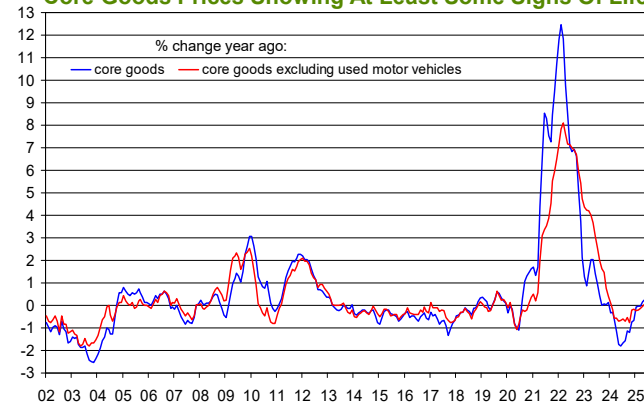
As we anticipated, lodging rates and air fares fell further in May, and are likely to continue falling over the summer months as seasonal adjustment becomes more punitive. At 3.5 percent in May, the year-on-year increase in core services prices is the smallest such increase since November 2021, which goes to our point about faster services price disinflation acting at a mitigant against faster goods price inflation.



### Not Here Yet, Or Just Not Coming?



### Core Goods Prices Showing At Least Some Signs Of Life



### Softening Demand Weighing On Prices

