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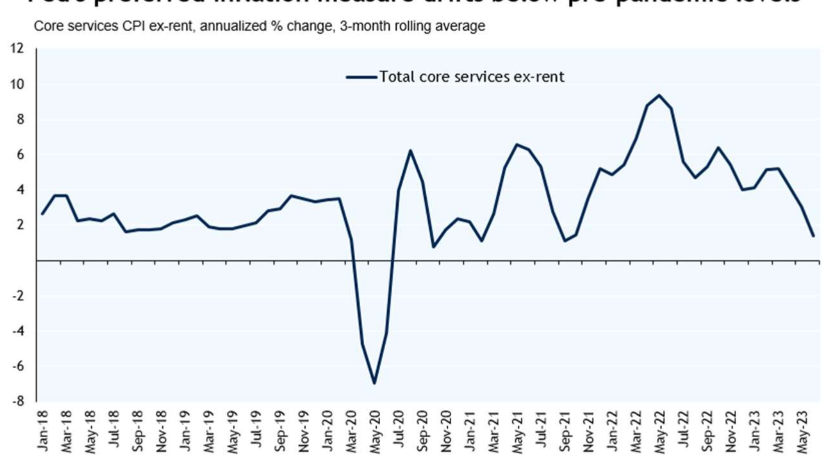
Economic Update

July 12, 2023

U.S. inflation eased more than expected in June

- Headline CPI growth in the U.S. slowed by a full percentage point to 3% in June, the lowest rate since March 2021. Much of that moderation was again driven by the fact that energy prices did not repeat the large surge seen in the same month a year ago. Gasoline prices in June were 26.5% below levels last year.
- Food inflation moderated again as expected, to 5.7% in June from 6.7% in May. On a month over month seasonally adjusted basis food prices edged up just 0.1% from May, well below the average monthly pace of +0.8% in 2022. Easing in price growth for dining out continued to lag groceries, amid persistently strong demand for domestic services activities.
- Excluding food and energy products, 'core' CPI in the U.S. slowed to 4.8% year-over-year in June, a sizable beat to consensus expectation of 5%. That's the equivalent of a 0.2% month over month seasonally adjusted change, just half of the average rate of monthly increase (+0.4%) saw from January to May.
- Inflation for rents and used cars, two of the biggest contributors to CPI readings in the prior months trended lower in June. Prices for used vehicles were little changed month over month after surging by 4% in each of April and May. Rent CPI in the meantime, grew by just 0.4%, the slowest pace in a year and a half as easing in market posted rents work their way with a lag into lease renewals.

Fed's preferred inflation measure drifts below pre-pandemic levels



Source: Bureau of Labor Statistics, RBC Economics

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- The Fed's preferred 'super-core' services ex-shelter measure (which excludes food, energy, rent and used car prices) grew by *1.4%* on a three-month annualized basis in June, down sharply from 3.1% in May and below the 2.5% average run rate over the two years pre-pandemic (2018 and 2019).

- **Bottom line:** Positive trends continue to emerge for inflation in the U.S., as price pressures moderate across major categories and the breadth for those pressures also narrows. The 'base effects' that are pushing energy price inflation lower have largely run their course, and further slowing in price growth should be slower going forward. Easing in broader inflation pressures are encouraging, but questions remain about how much further price growth can slow with labour markets still very tight and wage growth still running firm. That resilient macro backdrop means the Fed is still likely to hike the fed funds target range again later this month after taking a pass on raising rates in June. But slowing inflation pressures help to raise the odds that the next hike could be the last of this cycle.

U.S. CPI Growth

	Apr-23	May-23	Jun-23	Jun-23
	MoM % change (SA)			*YoY % change (NSA)*
Headline	**0.4**	**0.1**	**0.2**	**3.0**
Food	0.0	0.2	0.1	5.7
Energy	0.6	-3.6	0.6	-16.7
Core	**0.4**	**0.4**	**0.2**	**4.8**
Goods ex food and energy	0.6	0.6	-0.1	1.3
Used cars and trucks	4.4	4.4	-0.5	-5.2
Services ex energy	0.4	0.4	0.3	6.2
Rent of shelter	0.5	0.5	0.4	7.9