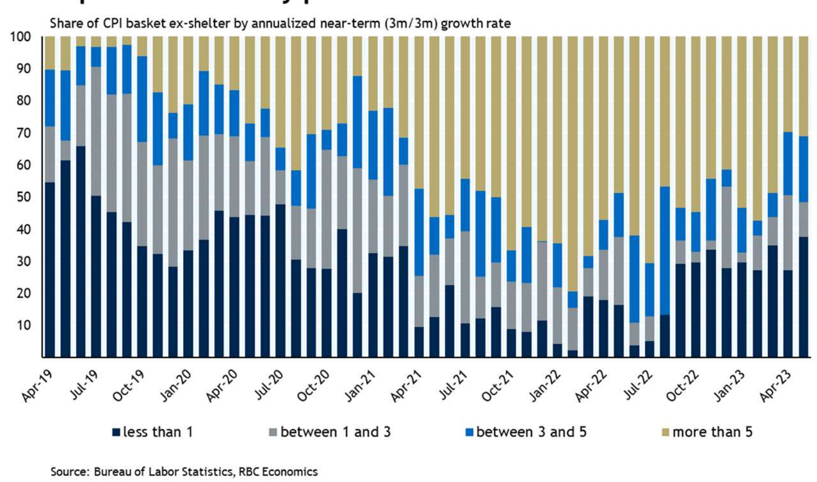
**May 16, 2023**

# U.S. inflation dropped to 4% in May

- Headline CPI growth in the U.S. edged lower again, to 4% in May from 4.9% in April with the decline mostly driven by lower energy prices (-11.7%). Gasoline prices were down 20% from a year ago.
- Food inflation also moderated, to 6.7% in May. Recent months have seen steep decelerations in monthly food CPI growth. Prices edged up by 0.2% from April after staying flat for two months, with grocery prices weakening ahead of prices for dining out.
- Excluding food and energy products, ‘core’ CPI in the U.S. slowed to 5.3% in May from 5.5% in April, in line with consensus expectations. On a monthly seasonally adjusted basis ‘core’ prices grew by 0.4% month over month. That pace is still strong, and matches the average rate of increase from January to April.
- Similar to April, notable categories that supported growth in ‘core’ inflation were rents and used vehicles, although both are set to slow in coming months. Wholesale used car prices have been declining steadily since March.
- Monthly increases for rents have also turned a corner after peaking at 0.8% in the beginning of the year. They grew by 0.5% in both April and May, the slowest rate in almost a year. Moderation in rent costs is also expected to continue, as slower growth in market posted rents work their way with a lag into lease renewals.
- The Fed’s preferred ‘super-core’ services ex-shelter measure (which excludes those increases in rent and used car prices) grew by 3.1% on a three-month annualized basis in May. That is still well above the central bank’s 2% inflation objective but is down significantly from a peak 9% rate in May a year ago.

**Scope of inflationary pressures continues to moderate**

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**Bottom line:** Inflation continues to slow in the U.S. and the breadth of pressures continues to narrow. But prices are still rising faster than the Fed's target rate. Consumer spending has been resilient and labour markets are still tight even with lower job openings and a tick higher in the unemployment rate in May. Fed officials earlier indicated that they will likely 'skip' a rate hike at tomorrow's policy decision, and today's inflation data should reinforce that view. But another 25 bp hike in July still looks likely.

**U.S. CPI Growth**

| | Mar-23 | Apr-23 | May-23 | May-23 |
|---|---|---|---|---|
| | *MoM % change (SA)* | | | *YoY % change (NSA)* |
| Headline | **0.1** | **0.4** | **0.1** | **4.0** |
| Food | 0.0 | 0.0 | 0.2 | 6.7 |
| Energy | -3.5 | 0.6 | -3.6 | -11.7 |
| Core | **0.4** | **0.4** | **0.4** | **5.3** |
| Goods ex food and energy | 0.2 | 0.6 | 0.6 | 2.0 |
| *Used cars and trucks* | -0.9 | 4.4 | 4.4 | -4.2 |
| Services ex energy | 0.4 | 0.4 | 0.4 | 6.6 |
| *Rent of shelter* | 0.6 | 0.5 | 0.5 | 8.1 |