

Consumer Inflation Eases Again in May

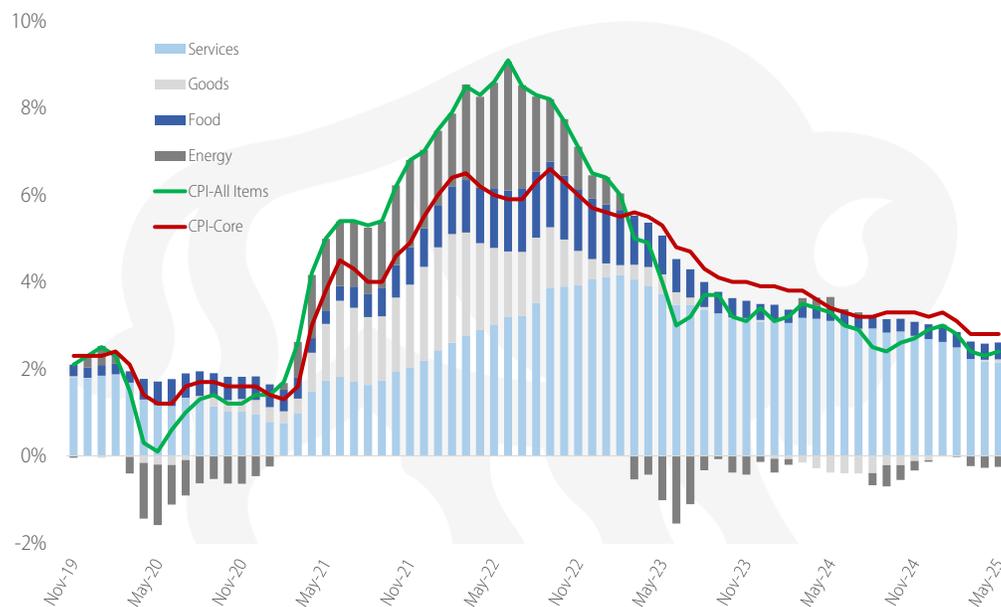
Once again, the Consumer Price Index (CPI) came in below forecasts, defying widely-held expectations that tariffs will drive inflation higher. Both overall and core CPI increased by just +0.1% in May, decelerating from +0.2% in April. On a year-over-year basis, headline CPI climbed from +2.3% to +2.4%, while the core rate held steady at +2.8%, *matching a 50-month low from the previous month.*

A -2.6% drop in gasoline prices helped push overall energy down -1.0% for the month. Food prices rebounded from a -0.1% April decline to a still acceptable +0.3% increase in May. Shelter costs, the long-time driver of lingering inflation, continued to recede, up just +0.3% and +3.9% year-over-year.

Some of the price decline experienced last month can be attributed to waning consumer demand. With fewer Americans traveling, the cost of fares (-2.7%) and lodging (-0.1%) moved lower. Demand may also be affecting auto prices with the cost of new vehicles down -0.3% and used cars and trucks -0.5% lower.

The prevailing narrative has been that prices will eventually rise. Anecdotal evidence indicates that some of the initial tariff costs are being absorbed by sellers, which would be expected to impact business profit margins over time. However, *the bottom line (for now) is that the inflation rate is falling, not rising.* On a three-month annualized basis, CPI is up just +1.7% through May, down from +2.1%.

Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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Fed officials expect prices will move higher in the coming months while economic growth slows. This morning's report suggests a faulty inflation outlook. However, with most tariffs on hold, much of the impact will be delayed. Still, the Fed will feel increased pressure to cut rates, especially from the Trump administration. In a social media post this morning, the president proclaimed *great CPI numbers* and suggested (in all caps) that the Fed lower rates by 100 basis points.

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The bond market is in the midst of a modest rally (yields lower), although not to the degree expected given such benign price pressure. The financial markets are also processing the latest China trade update from President Trump in which he proclaimed *the deal was done* (subject to final approval) with the U.S. "... getting a total of 55% tariffs, China is getting 10%." There is no confirmation yet from China and few details at this time, although whatever deal was negotiated will include essential rare earth minerals *up front*, according to President Trump.

Market Indications as of 8:59 A.M. Central Time

DOW	Up 72 to 42,939 (HIGH: 45,014)
NASDAQ	Up 23 to 19,738 (HIGH: 20,174)
S&P 500	Up 3 to 6,042 (HIGH: 6,144)
1-Yr T-bill	current yield 4.08%; opening yield 4.09%
2-Yr T-note	current yield 3.96%; opening yield 4.02%
3-Yr T-note	current yield 3.93%; opening yield 3.98%
5-Yr T-note	current yield 4.03%; opening yield 4.09%
10-Yr T-note	current yield 4.44%; opening yield 4.47%
30-Yr T-bond	current yield 4.92%; opening yield 4.93%

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