US CONSUMER PRICE GROWTH SLOWED LAST MONTH AS INFLATION SHOWS SIGNS OF STEADY DECLINE - ASSOCIATED PRESS

Posted on June 14, 2023 by CHRISTOPHER RUGABER | AP Economics Writer

Consumer prices in the United States cooled last month, rising just 0.1% from April to May and extending the past year's steady easing of inflation. At the same time, some measures of underlying price pressures remained high.

Measured year over year, inflation slowed to just 4% in May — the lowest 12-month figure in over two years and well below April's 4.9% annual rise. The pullback was driven by tumbling gas prices, a much smaller rise in grocery prices than in previous months and less expensive furniture, air fares and appliances.

Tuesday's inflation figures from the government arrived one day before the Federal Reserve is expected to leave interest rates alone after imposing 10 straight rate hikes dating back to March 2022. After a two-day meeting, the Fed will likely announce that it's skipping a rate hike but may hint that it will resume raising rates as soon as July.

Last month's drop-off in overall inflation isn't likely to convince the Fed's policymakers that they're close to curbing the high inflation that has gripped the nation for two years. The central bank tends to focus most closely on "core" prices, which exclude volatile food and energy costs and are considered better able to capture underlying inflation trends. These prices remain stubbornly high.

Core prices rose a sizable 0.4% from April to May, the sixth straight month of increases at that level or higher. Compared with a year ago, core inflation slipped from 5.5% to 5.3% but is still far above the Fed's target of 2%.

Yet some positive signs, even in the measures of core prices, suggest that underlying inflation pressures may be receding. The outsize increases in core prices were driven mainly by rising rents and by another spike in used car prices. Real-time data suggests that increases in those categories will soon ease and help cool inflation.

"Outside of those two components, the trend has become very encouraging," Stephen Juneau, an economist at Bank of America, said in a research note. "We should continue to see improvement in core" prices.

Economists say inflation is being driven by a narrower set of goods and services. Excluding housing costs — which include rents and hotel prices, which jumped last month — prices actually dipped 0.1% from April to May. And they're up just 2.1% from a year ago.

Rents rose 0.5% from April to May, down from the peak gains of 0.7% to 0.8% last year. Used car prices soared 4.4% just from April to May. Those two factors alone drove four-fifths of the monthly increase in core prices, according to Ian Shepherdson, chief economist at Pantheon Macroeconomics. And the government said housing costs made up three-fifths of year-over-year core inflation.

Yet it could take months for rising costs in those areas to ease back to pre-pandemic levels. Fed officials will want to see the expected price declines in rents and used cars actually materialize before they extend any pause in rate increases.

"There's progress, it's encouraging," said Eric Winograd, chief economist at asset manager AllianceBernstein. "I think it's enough for the Fed to pause tomorrow....But I don't think it is enough that we can sound the all-clear."

Outside used cars, prices for goods such as furniture, appliances, and computers were unchanged, an encouraging sign that supply chain backups that sent prices soaring two years ago have largely resolved.

Hal Lawton, CEO of Tractor Supply Co., in Brentwood, Tennessee, which sells items like tractors and outdoor grills, said many of his costs are easing. Substantial reductions in freight prices and moderating wage increases are putting less pressure on him to keep raising prices.

His price increases, Lawton said, have slowed to the mid-single digits, and by year's end, he predicts they'll level off to the low single digits.

"You can see it coming down in a sustained way, and I'm feeling very good about that, whether it's freight, whether it's wages, whether it's underlying commodity pressure," Lawton said. "It gives me a positive outlook on the economy because of that."

Gas prices, adjusted for seasonal patterns, fell 5.6% from April to May; they're down nearly 20% from a year ago. And grocery prices ticked up just 0.1%, a relief to consumers, though they're still 5.8% higher than they were a year ago.

With housing making up such a large proportion of inflation, economists are closely tracking real-time measures of rents in new apartment leases. The government's measure of rents is now incorporating the sharp increases that occurred in 2021 and 2022 as many people moved to gain more space during the pandemic. But as newer leases with much smaller rent increases feed into the government's measure, rental costs should drop.

According to ApartmentList, which tracks new leases, average rents nationally rose just 0.9% in May from a year earlier. That's down from a 17.6% spike in 2021. The decline reflects a jump in the construction of apartment buildings at a time when demand for apartments has slowed.

"If you're a renter out there, you've got a lot more vacant units, nationally speaking," than at any time since the pandemic, said Rob Warnock, senior research associate at Apartment List.

Still, the stubbornness of underlying inflation reflects a fundamental challenge for the Fed: The economy has steadily defied long-standing forecasts for a recession, dating back more than a year. Instead, businesses have kept hiring at a healthy pace, average paychecks are climbing and workers are freely spending their larger wages.

Though a resilient economy is great for households and businesses, it may also be helping fuel chronically high inflation. Some economists argue that many companies are keeping prices artificially high, more than is needed to cover their own higher costs, to drive profit growth. The nation's consumers might have to pull back, en masse, before most businesses will reduce prices. In the meantime, steadily robust hiring is allowing Americans, as a whole, to keep spending.

The Fed has raised its benchmark rate by a hefty 5 percentage points over the past 15 months — the fastest pace of rate increases in four decades. Those hikes have led to much higher costs for mortgages, auto loans, credit cards and business borrowing. The Fed's goal is to slow borrowing and spending, cool the economy and tame inflation — without causing a deep recession. It's a notoriously difficult task.

There are some signs that the Fed's efforts are having the desired effect. Inflation is expected to take another big step down in the figures for June that will be reported next month. Price growth could slide as low as 3.2% from a year earlier, according to some economists' estimates. That would be significantly below inflation's peak of 9.1% in June 2022, the highest level in four decades.

A sharp decline next month as well would reflect the fact that food and gas prices soared in both May and June last year. As those months drop out of the year-over-year inflation calculations, they are replaced with smaller monthly gains. The effect can sharply lower measures of annual inflation.

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AP Retail Writer Anne D'Innocenzio contributed to this report from New York City.