Good News on Inflation?

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This week the inflation rate for June was released and much as economists expected, there marked improvements. The CPI, or Consumer Price Index, shows prices are now 3.0% higher than they were in June of 2022 when inflation peaked. In May, that rate was 4% showing June's rate is indeed an improvement. So, does this mean we have nearly won the fight against inflation and the Federal Reserve will bring interest rates back down?

To answer that question, think back to June of last year. Gas prices were about $5 a gallon and other prices were also still quite high mostly for pandemic-related reasons. Peak inflation hit in June of last year with a CPI of almost 9%. So, inherently June of this year is going to look pretty good compared to the soaring prices of last year for everything from food, cars, houses, couches, medical services, etc.

Now, just like last June's high numbers are going to make this most recent June data look really, the opposite will also be true in coming months. After June's peak of last year, prices *slowly* began to fall so I predict our current jump down to 3.0% inflation will stay relatively close to 3.0% for a while simply because we will be comparing to a year ago when prices were finally abating somewhat. And the Federal Reserve knows about these data nuances as you now do you.

Another thing to consider is core inflation, which strips out the more volatile food and energy categories. That rate is still well above the 2% Fed target at 4.8%. The Fed cares more about the core inflation rate because it tells us that it's not just food and/or gas or other energy forms that are squeezing the consumer, it's virtually all goods that have elevated prices. As the table shows, other categories like new cars and services are still quite elevated and many of those categories are necessities to the average consumer. Similarly, energy categories are between 26% and 36% lower than a year ago, which is great, but if energy prices go up again, inflation could again move upwards. This is always possible because we are unfortunately often at the mercy of OPEC nations. And since the Fed looks more at core inflation, that 4.8% rate is still well above their 2% target.

This basically means that the Federal Reserve is *not* likely to suddenly bring down interest rates or even hold them at the current rate. In fact, most analysts believe the Fed will actually raise rates one more time during its July meeting. So, although this week's inflation news is good, it's not yet good enough to bring our interest rates back down to earth.

Percent Change in CPI

Category	Year-over-Year
ALL ITEMS	+3.0%
Food	+5.7
Energy	-16.7
Gasoline	-26.5
Electricity	+5.4
Utility Gas	-18.6
All Items Less Food & Energy ("Core")	+4.8
New Cars	+4.1
Used Cars	-5.2
Apparel	+3.1
Services	+6.2

Source: Bureau of Labor Statistics. Additional information can be found at bls.gov. Compiled by DDES.

Tatiana Bailey is Executive Director of Data-Driven Economic Strategies (DDES). An abridged video with this information recently aired on The Economic Update with Tatiana Bailey on Fox21 and can be found on their website or at ddestrategies.org.