

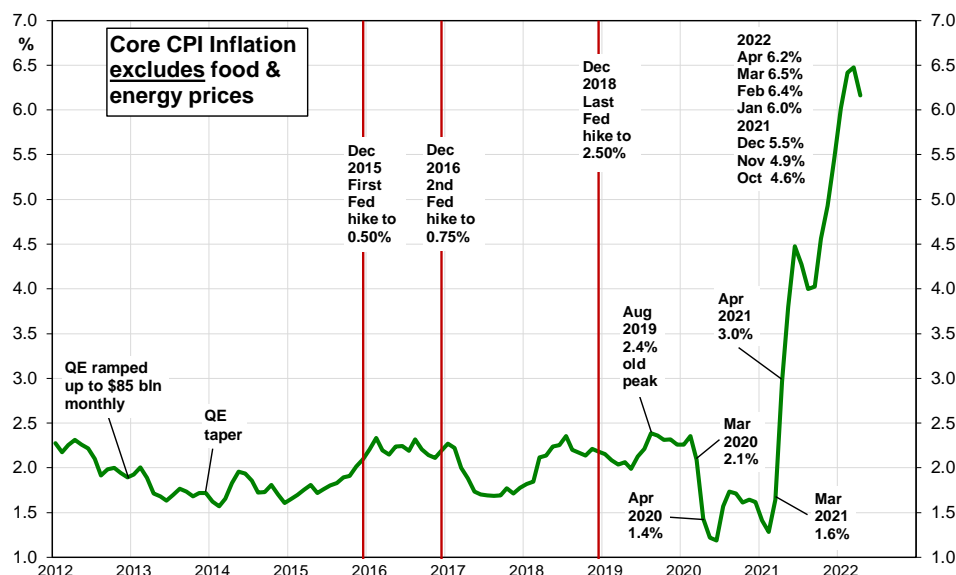
Breaking Economy News

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INFLATION ISN'T ANY HOTTER, BUT THE FIRE ISN'T OUT YET

Breaking economy news. CPI inflation was worse than market expectations. Energy prices didn't fall as much and core inflation rose 0.6% for the month with new car prices up 1.1% and services prices ex-energy up 0.7% (0.7 the highest since at least October 2021). Nevertheless, there are tentative signs inflation is close to the peak once we get the higher gasoline prices at the start of the summer driving season in May out of the way.



April CPI inflation up 8.3% the last year; it was 8.5% last month. Core CPI inflation up 6.2% the last year; it was 6.5% last month. Inflation may have peaked, but that doesn't mean prices will stop rising. The million dollar question is where inflation slows to whether it is 3 or 4 or 5 percent because if inflation sticks there, then the central bank may need to raise interest rates to 3 or 4 or 5 percent. Every inflation outbreak since the 70s has ended in recession and it will be a miracle if ever tighter monetary policy doesn't bring down the house again within the next couple of years. The Fed has its work cut out for it as the long list of major consumer expenditure categories shows only two, Physicians' services and Medical care commodities, that are at or below the Fed's 2 percent inflation target.

In every cycle, commodity prices are the biggest swing factor behind inflation moving up and down sharply in response to supply and demand forces in the economy. Commodities less food and energy rose 9.7% the last year and could go negative next year as the Fed pumps the brakes on demand and supply chains come back on line. Services prices are stickier as once companies gain pricing power they don't easily give it up. Services less energy prices are up

Weight	CPI Inflation	Monthly Percent Changes			YOY %
		Feb 2022	Mar 2022	Apr 2022	
100.0	Total	0.8	1.2	0.3	8.3
13.990	Food	1.0	1.0	0.9	9.4
6.269	Food away from home	0.4	0.3	0.6	7.2
7.542	Energy	3.5	11.0	-2.7	30.3
78.468	Ex-food & energy	0.5	0.3	0.6	6.2
3.884	New vehicles	0.3	0.2	1.1	13.2
3.419	Used cars/trucks	-0.2	-3.8	-0.4	22.7
2.669	Clothing	0.7	0.6	-0.8	5.4
1.487	Medical care goods	0.3	0.2	0.1	2.1
32.393	Shelter	0.5	0.5	0.5	5.1
23.509	Owner equiv. rent	0.4	0.4	0.5	4.8
5.046	Transportation	1.4	2.0	3.1	8.5
6.987	Medical care services	0.1	0.6	0.5	3.5
Special: Where inflation might come back down to					
57.700	Services ex-energy	0.5	0.6	0.7	4.9

4.9% the last year which shows where inflation might come back down to, if food and energy prices ever stop going up.

Net, net, the country's struggle with high inflation isn't over yet, but the markets can still breathe a sigh of relief that the most virulent outbreak since the 80s is not getting any worse. Bond yields have soared trying to guess how high Fed officials need to go with interest rates to fight inflation. The Fed can stay on plan with 50 bps rate hikes at the next two meetings in June and July and there is no reason to move more expeditiously to fight inflation. There were signs of cautious optimism in the CPI report today from another decline in used car and truck prices: with a 5.2% weight in the core CPI index, the 22.7% rise in used car and truck prices was responsible for 1.2 percentage points of the 6.2% rise in core CPI the last year. It isn't impossible to imagine core CPI falling back near to 2 or 3 percent for a time if used car and truck prices fall as hard as they climbed the last year. Stay tuned. Story developing. Inflation isn't growing any hotter, but the fire isn't out yet either. The Fed's work is not done. Not by a long shot. The biggest central bank policy error committed since the 70s hasn't been corrected yet and no one yet knows whether it can be.

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