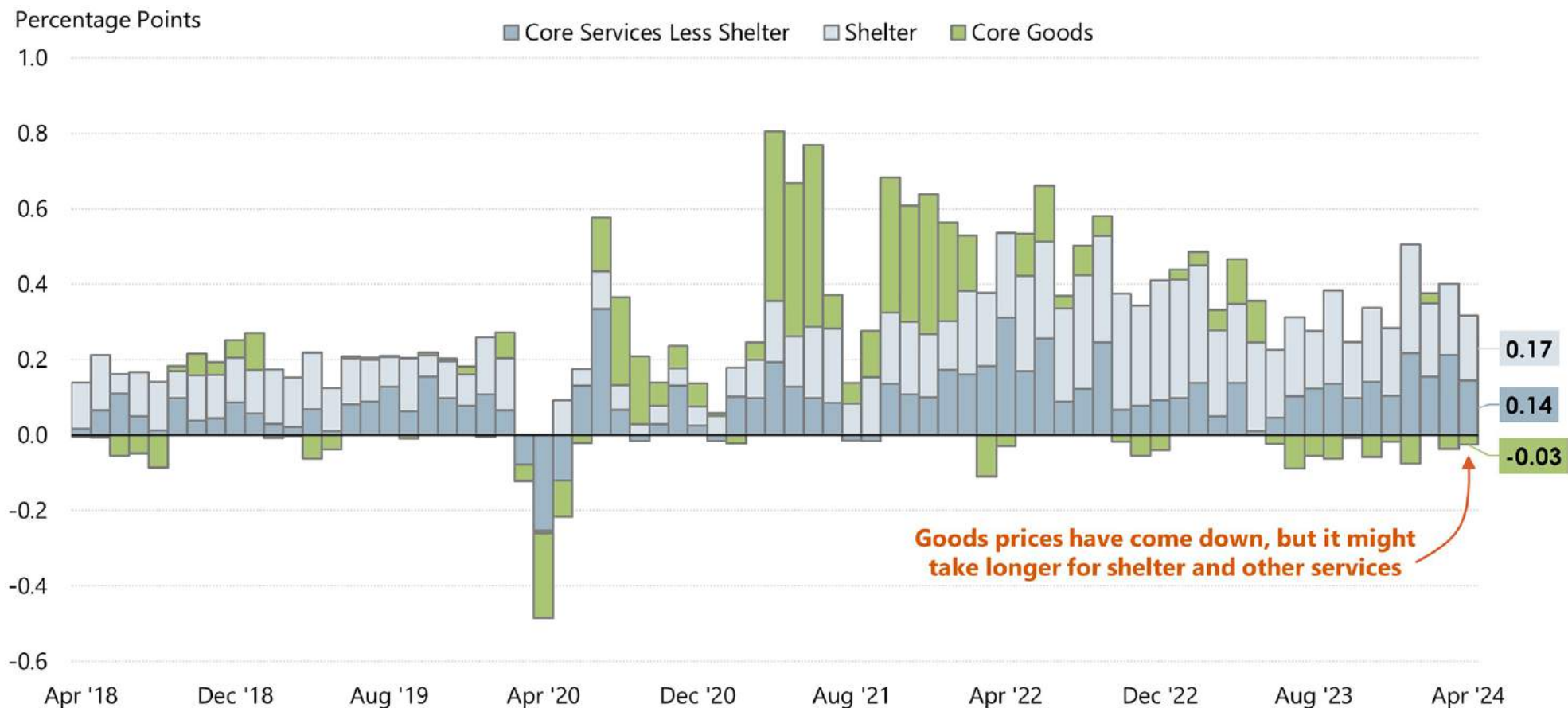


## Stubborn Services

Contribution To The Monthly Change In U.S. Core CPI\*

For The Week Ending 05/17/2024



Sources: Bureau of Labor Statistics, Bloomberg

\*The core Consumer Price Index (CPI) excludes food and energy

The U.S. bond market rallied this week partly due to the Consumer Price Index (CPI) report for April, which showed core CPI increased in line with consensus (+0.3%). Since the release, we've heard hopeful narratives that "disinflation is back on track." While the report reduced the risk of inflation reacceleration, we're less confident that price pressures will quickly recede. For example, both the prices of shelter and other core services increased by 0.4% in April and 0.5% on average over the last six months, showing few signs of slowing. In addition, a persistent 0.3% monthly reading means core CPI would pick back up to 3.8% year-over-year by December—an outcome unacceptable to policymakers. We've also heard that a few outliers (e.g., apparel or homeowners' insurance costs) keep core inflation elevated. Median CPI, which excludes the impact of outliers, increased by 0.4% in April, barely any change from its six-month trend. In the words of Chair Powell, policymakers "will bring inflation back to [the] 2% [target]," but we still think it might take longer than expected.