

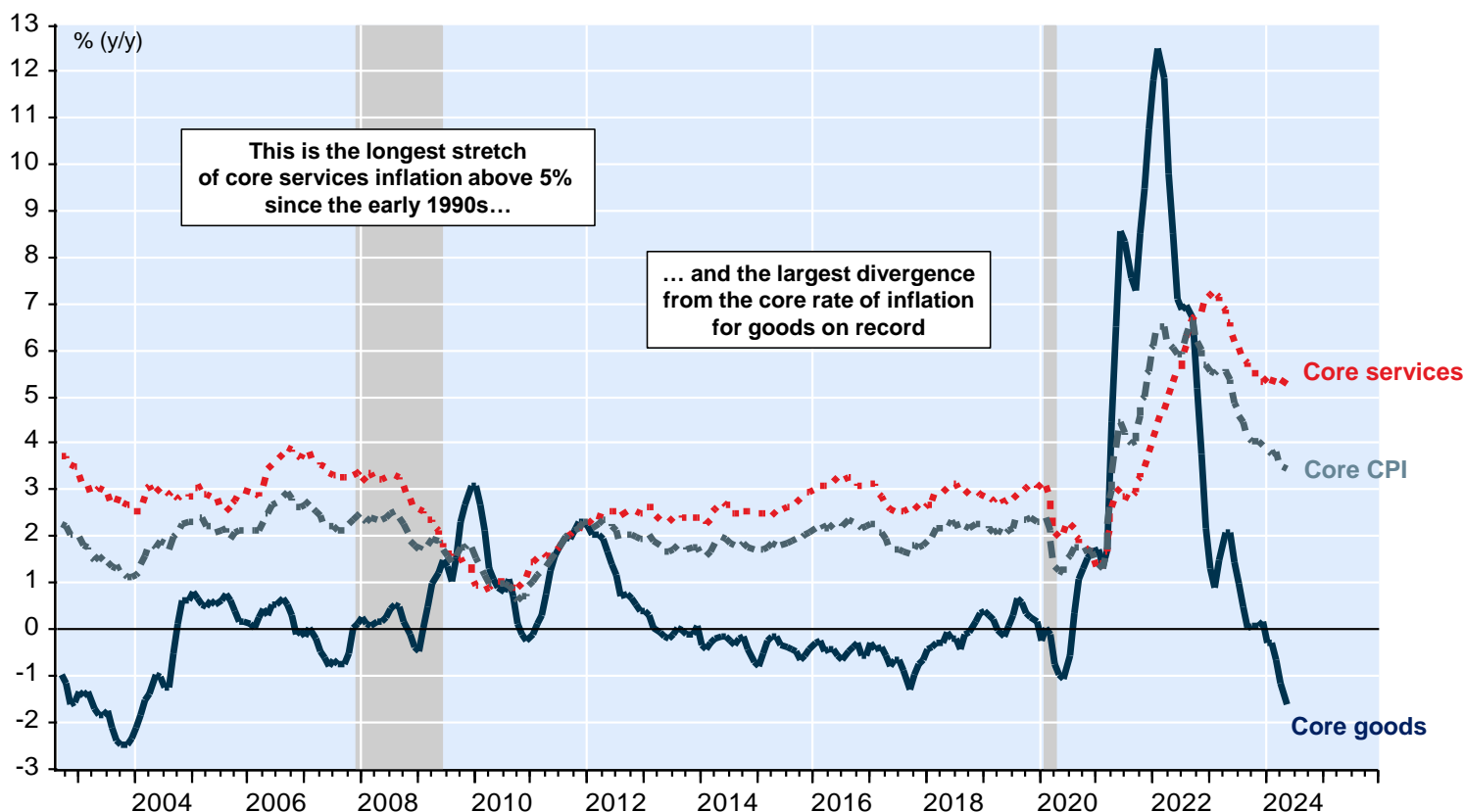
U.S. Watch

By **Stéfane Marion** and **Jocelyn Paquet**

Global financial markets cheered last week's weaker-than-expected US CPI data for May, with both the headline (+0.0%) and core (+0.2%) measures coming in a tick below consensus expectations. As today's Hot Chart shows, the real question going forward is whether the ongoing deflation in core goods will be enough to offset the persistent inflationary pressures in core services, where 12-month inflation has been above 5% for 24 consecutive months - the longest such streak since the early 1990s. Note that there is no precedent in modern US history for core services inflation to be above 5% while core goods are deflating. As US tariffs on Chinese goods ramp up, the possibility of disinflation stalling in the coming months remains. Keep in mind that the average base effect on core CPI from now to December will be only +0.17%, which means that, for the 12-month core rate to continue to fall, monthly results from now to the end of the year will have to be consistently below this figure. It's possible, but it's a tall order.

US: Core services inflation remains above 5% for 24th consecutive month

Core CPI inflation: Total, services and goods



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