

May CPI, PPI, June Mortgage Apps

Lower Energy Prices Weigh on Headline Inflation

- The May Consumer Price Index increased by 0.1 percent, as energy prices dropped.
- The Producer Price Index for May also gained just 0.1 percent.
- Mortgage Applications jumped by 26.8 percent in early June as mortgage rates declined.

Falling petroleum prices kept headline inflation readings subdued in May. The Consumer Price Index increased by just 0.1 percent for the month, after increasing by 0.3 percent in April. The CPI's energy price sub-index fell by 0.6 percent in May after three months of strong gains. High inventories and the prospect of cooler global demand have pulled crude oil prices (WTI) down from near \$64 per barrel in early May to near \$52 per barrel in mid-June. We expect to see ongoing drag from energy prices in the June CPI. Food prices gained 0.3 percent in May, pushed up by non-alcoholic beverages and other categories. Core CPI (less food and energy) increased by just 0.1 percent for the fourth consecutive month. Over the previous 12 months, headline CPI was up by 1.8 percent, well below the 2.9 percent year-over-year gains from last summer. Core CPI was up by 2.0 percent for the 12 months ending in May, down from the 2.3 percent year-over-year gain from June 2018. Recent tepid gains in core CPI are set to pull the year-over-year gains even lower in the months ahead.

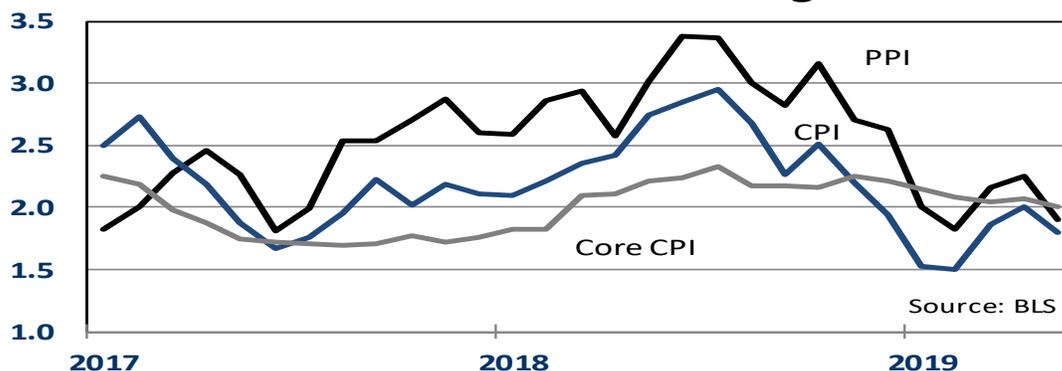
Producer prices are also feeling the drag from energy. As reported yesterday, the headline Producer Price Index for Final Demand gained just 0.1 percent in May. The energy sub-index for PPI fell by 1.0 percent for the month. Wholesale food prices ticked down 0.3 percent. The trade sub-index fell by 0.5 percent in May after posting a similar loss in April. Core PPI (excluding food, energy and trade) increased 0.4 percent in May for the second consecutive month. Over the previous 12 months, headline PPI was up by 1.8 percent, down significantly from the 3.4 percent year-over-year increase from last July. Core PPI was up by 2.3 percent for the 12 months ending in May, down from 3.1 percent year-over-year growth last September.

The downward trend in year-over-year inflation readings will be a topic for discussion at the upcoming Federal Open Market Committee meeting over June 18/19. We expect the Fed to keep interest rates unchanged at this meeting, but we also expect the Fed to start modifying their forward guidance, allowing for the possibility of rate cuts soon.

Total mortgage applications increased by 26.8 percent for the week ending June 7. Refis surged, up 46.5 percent for the week, after gaining 6.4 percent the week before. Purchase apps were also up in early June, increasing by 10.0 percent. On a four-week moving average basis, refi apps were up 47.5 percent over the previous 12 months. Purchase apps were up 6.3 percent over the year. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage fell to 4.12 percent.

Market Reaction: U.S. equity markets opened with losses. The 10-Year Treasury bond yield is down to 2.12 percent. NYMEX crude oil is down to \$51.93/barrel. Natural gas futures are down to \$2.39/mmbtu.

Price Pressure Is Easing



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