



The Daily Dish

# A Closer Look at the June CPI

DOUGLAS HOLTZ-EAKIN | JULY 15, 2024

The [June data](#) for the Consumer Price Index (CPI) came in softer than expected, leading to a spate of [stories](#) predicting a cut in the federal funds rate at the September meeting of the Federal Open Market Committee (the monetary policy body of the Federal Reserve). The June jobs report produced a similar flurry, but Eakinomics remained [skeptical](#). Is the CPI data enough to change the Fed's mind?

The 0.1-percent decline in the overall CPI is easy enough to explain – energy prices fell sharply in June. The energy component of the CPI fell by 2.0 percent in June, following a 2.0-percent decline in May. The energy component is now up only 1.0 percent from June 2023 to June 2024.

But the more important story was the low rate of shelter inflation in June. Shelter inflation came in at 2.9 percent (annualized) in June, down from 5.4 percent in May. Shelter is 36 percent of the CPI at present, so that 2.5-percentage-point decline contributed nearly a full percentage point to the decline in the overall CPI (annualized).

The graph below shows the trajectory of monthly shelter inflation (blue line) and year-over-year shelter inflation (orange line). The low rate in June is the slowest inflation since August 2021. This is unambiguously good news but still leaves shelter inflation at a 5.2-percent year-over-year rate.

Moreover, we have seen this movie before. Shelter inflation got down to 3.2 percent in August and October of 2023, only to head north again. So the key is whether one is confident of continued soft shelter inflation. If so, one might expect continued progress to the 2.0 percent Fed target for inflation and feel comfortable easing monetary policy somewhat in September. Or one could keep that standard for proof at a higher bar and look for additional evidence that shelter (and overall) CPI inflation remains muted.

In the end, the Fed will get two more CPI reports (for July and August), along with additional evidence from the Personal Consumption Expenditures price index, prior to the September meeting. Those data may likely prove decisive.

### Inflation in the Shelter CPI

