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TD Economics

Data Release: Consumer prices rise modestly in May

- Consumer prices rose 0.1% in May, below expectations for a 0.2% gain. Core CPI (excluding food and energy) rose 0.2%, on par with expectations.
- On a year-over-year basis, headline inflation rose to 1.4% (from 1.1%), while core inflation remained unchanged at 1.7%.
- Energy prices rebounded by a modest 0.4% (month-over-month), after declining by 4.3% in April. The rebound in energy prices was largely a (piped) natural gas (+2.4%) and electricity (+0.8%) story. Gasoline prices were flat in the month and overall energy commodities declined by 0.1%.
- Food prices fell by 0.1%, a modest decline, but the first since June 2010.
- Core consumer price growth was led by services, which rose 0.2%. Core goods prices were flat for the second straight month.

Key Implications

- The soft reading on inflation comes as the Federal Reserve begins its two-day meeting in which it will discuss the future of its asset purchase program. Today's report may temper some of the push for tapering, but it is not a game changer. We expect that the Fed's statement tomorrow will forewarn that it is ready to taper purchases, but is waiting on signs that the labor market has moved closer to substantial improvement. This is likely still a few statements away.
- The gain in headline consumer prices was soft in May, but core consumer price growth firmed. The firming in core inflation should assuage fears that a major disinflationary trend has set in. Consumer price inflation is likely to move up modestly from here and reach 2.0% by the second quarter of next year. For more on the economic, inflation and interest rate outlook please see our [Quarterly Economic Forecast](#), released this morning.

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