

US Daily: June CPI Preview (Hill/Walker)

- We expect a 0.21% increase in June core CPI (vs. 0.2% consensus), corresponding to a year-over-year rate of 3.43% (vs. 3.4% consensus). We expect a 0.11% increase in June headline CPI (vs. 0.1% consensus), which corresponds to a year-over-year rate of 3.17% (vs. 3.1% consensus). Our forecast is consistent with a 0.17% increase in CPI core services excluding rent and owners' equivalent rent and with a 0.20% increase in core PCE in June. We will update our core PCE forecast after the CPI is released and again after the PPI is released.
- We highlight three key component-level trends we expect to see in this month's report. First, we expect used car prices to decline 1.6%, reflecting continued catch-down to auction prices. Second, we expect car insurance prices to rise, albeit not as quickly as earlier in the year—we forecast a 0.5% increase in the car insurance component compared to 1.3% on average so far in 2024. Third, we expect shelter inflation to slow somewhat relative to last month (we forecast rent to increase by 0.36% and OER to increase by 0.39%), as the gap between rents for new and continuing leases continues to close.
- Going forward, we expect monthly core CPI inflation to remain in the 0.2-0.3% range for the next few months before settling around 0.2% by end-2024. We see further disinflation in the pipeline in 2024 from rebalancing in the auto, housing rental, and labor markets, though we expect offsets from continued catch-up inflation in healthcare and car insurance and from single-family rent growth continuing to outpace multifamily rent growth. We forecast year-over-year core CPI inflation of 3.2% and core PCE inflation of 2.7% in December 2024.

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June CPI Preview

We expect a 0.21% increase in June core CPI (vs. 0.2% consensus), corresponding to a year-over-year rate of 3.43% (vs. 3.4% consensus). We expect a 0.11% increase in June headline CPI (vs. 0.1% consensus), which corresponds to a year-over-year rate of 3.17% (vs. 3.1% consensus), reflecting lower energy (-1.0%) and modestly higher food (+0.1%) prices. Our forecast is consistent with a 0.17% increase in core services excluding rent and owners' equivalent rent in June. Exhibit 1 provides a component-level summary of our forecast.

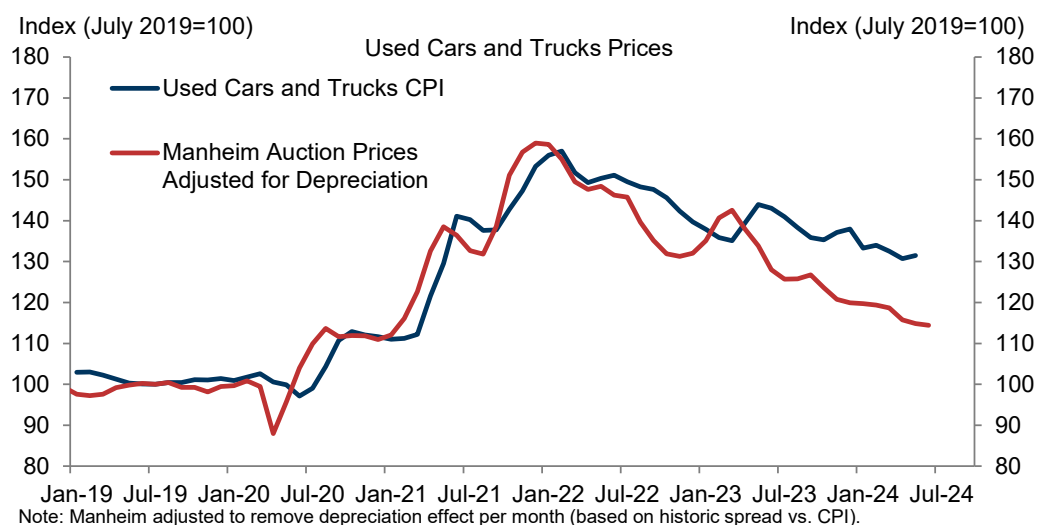
Exhibit 1: We Expect a 0.21% Increase in Core CPI in June

	Core CPI			
	Weight	3-Month Trend	May, MoM SA	June, MoM SA, GS Forecast
Core	100%	0.27%	0.16%	0.21%
Apparel	3%	0.5%	-0.3%	0.2%
New cars	5%	-0.4%	-0.5%	0.2%
Used cars	2%	-0.6%	0.6%	-1.6%
Motor vehicle parts	1%	0.1%	0.5%	0.1%
Medical care commodities	2%	0.6%	1.3%	0.4%
Tobacco	1%	0.7%	1.6%	0.2%
Rent of primary residence	10%	0.38%	0.39%	0.36%
Lodging away from home	2%	-0.1%	-0.1%	-1.5%
Medical care services	8%	0.45%	0.34%	0.32%
Public transportation	1%	-1.1%	-3.1%	0.1%
Transportation services ex-public	7%	0.6%	-0.5%	0.4%
Pets	1%	0.3%	0.1%	0.0%
Recreation ex-pets	6%	0.0%	-0.2%	0.2%
Education	3%	0.3%	0.4%	0.3%
Communication	4%	-0.1%	-0.3%	0.2%
Household furnishings and ops.	5%	-0.2%	-0.2%	-0.2%
Personal care	3%	0.3%	-0.3%	0.2%
Alcoholic beverages	1%	0.1%	0.1%	0.2%
Owners' equivalent rent	34%	0.43%	0.43%	0.39%
Residual (implicit)	2%			0.2%
Core Goods	23%	-0.10%	-0.04%	-0.09%
Core Services	77%	0.39%	0.22%	0.29%
Core Services Ex-Rent and OER	34%	0.34%	-0.04%	0.17%
Implied NSA Headline Index Level	--	--	--	314.768

Source: Department of Labor, Goldman Sachs Global Investment Research

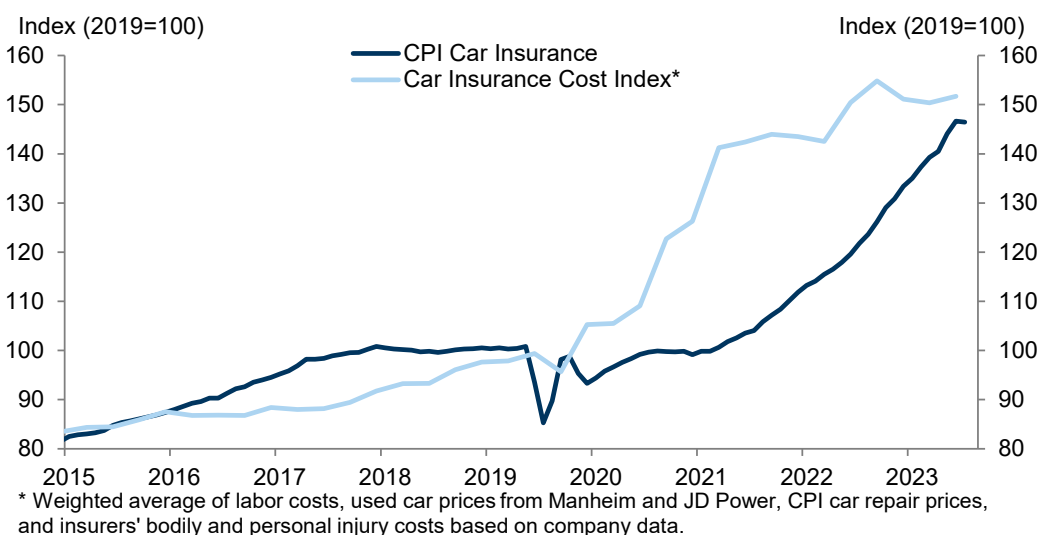
We highlight three key component-level trends we expect to see in this month's report:

1. Autos. We expect a 1.6% decline in used car prices in June. Used-car auction prices have now fallen 28% from their peak vs. 16% for CPI used car prices, suggesting that there is room for the CPI measure to fall further in this report (Exhibit 2). We expect inflation in new cars to rebound to about +0.2% (vs. -0.5% in May), reflecting disruptions to dealer software systems and a (likely related) decline in promotional incentives in June.

Exhibit 2: We Expect Used Car Prices to Decline, Reflecting Lower Auction Prices and Easing Supply Constraints


Source: Department of Labor, Manheim, Goldman Sachs Global Investment Research

2. Car insurance. We expect car insurance prices to rise, albeit not as quickly as earlier in the year—we forecast a 0.5% increase in the car insurance component compared to 1.3% on average so far in 2024. Higher car prices, repair costs, and medical and litigation costs have all put pressure on insurance companies to raise prices, but premiums have been passed onto consumers with a long lag in part because insurers have to negotiate price increases with state regulators. Car insurance has a much smaller weight and is measured using different source data in the PCE index, so we do not expect these changes to have meaningful effects on PCE inflation.

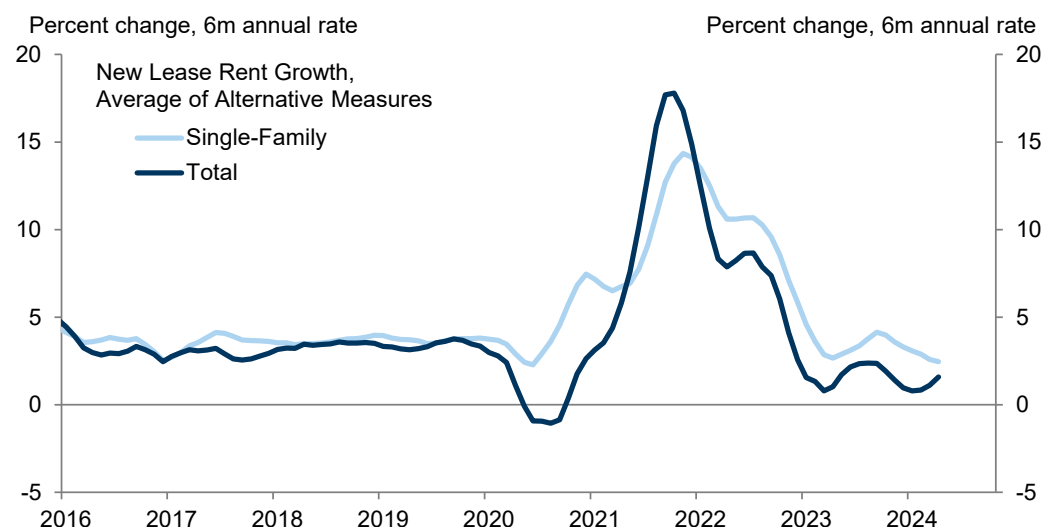
Exhibit 3: We Expect Car Insurance Rates to Increase by 0.5% as Premiums Continue Catching Up to Costs


Source: Company data, Manheim, JD Power, Department of Labor, Goldman Sachs Global Investment Research

3. Shelter. We expect shelter inflation to step down from last month's pace, reflecting

declines in rent inflation to 0.36% and owners' equivalent rent (OER) inflation to 0.39%, as the gap between rents for new and existing tenants continues to narrow. Going forward, we believe that somewhat stronger rent growth for single-family homes will likely lead OER to continue to outpace rent in the CPI. We expect overall shelter inflation to be running at a monthly pace of around 0.34% by December 2024 (reflecting a 0.26% pace for rent and a 0.37% pace for OER).

Exhibit 4: e Expect CPI Rent Inflation to Continue to Slow but OER Inflation to Remain Strong, Reflecting More Catch-Up Left Among Single-Family Units



Source: Zillow, Yardi, CoStar, CoreLogic, Goldman Sachs Global Investment Research

Elsewhere in the report, we expect unchanged airfares, reflecting a rise in our equity analysts' online measure of airfares but potential negative residual seasonality. We also expect a slight boost from potential residual seasonality in consumer electronics categories.

Our forecast is consistent with a 0.20% increase in core PCE in June (Exhibit 5). We will update our core PCE forecast after the CPI is released and again after the PPI is released.

Exhibit 5: Our Core CPI Forecast Is Consistent with a 0.20% Increase in Core PCE in June

Category	CPI		PCE	
	Forecast (% chg, MoM)	Weight (%)	Forecast (% chg, MoM)	Weight (%)
Apparel	0.20	3.24	0.20	3.07
New cars	0.20	4.51	0.20	2.17
Used cars	-1.60	2.40	-1.60	1.31
Motor vehicle parts	0.09	0.58	0.00	0.74
Medical care commodities	0.40	1.85	0.40	3.91
Tobacco	0.20	0.69	0.20	0.68
Rent of primary residence	0.36	9.58	0.36	3.96
Lodging away from home	-1.50	1.91	-1.50	1.21
Medical care services	0.32	8.16	0.31	18.94
Public transportation	0.11	1.45	0.10	1.67
Transportation services ex-public	0.40	6.75	0.29	1.97
Pets	0.02	0.55	-0.11	0.65
Recreation ex-pets	0.20	5.88	-0.02	9.25
Education	0.30	3.18	0.28	2.03
Communication	0.20	3.77	0.17	1.84
Household furnishings and ops.	-0.20	5.29	-0.19	3.41
Personal care	0.19	3.19	0.17	2.27
Alcoholic beverages	0.16	1.06	0.17	2.25
Owners' equivalent rent	0.39	33.53	0.39	13.49
Financial services			0.40	8.26
Residual (implicit)	0.20	1.93	0.23	16.91
Core Goods	-0.09	23.3	0.02	25.2
Core Services	0.29	76.7	0.26	74.8
Core Services Ex-Housing	0.17	33.6	0.22	57.3
Core	0.21	100.0	0.20	100.0

Source: Department of Commerce, Department of Labor, Goldman Sachs Global Investment Research

Going forward, we expect monthly core CPI inflation remain in the 0.2-0.3% range for the next few months before settling around 0.2% by end-2024. We see further disinflation in the pipeline in 2024 from rebalancing in the auto, housing rental, and labor markets, though we expect offsets from catch-up inflation in healthcare and car insurance and from single-family rent growth continuing to outpace multifamily rent growth. We forecast year-over-year core CPI inflation of 3.2% and core PCE inflation of 2.7% in December 2024.

Exhibit 6: We Forecast Year-on-Year Core CPI Inflation of 3.2% in December 2024

	Weight	May 2024 YoY	GS Bottom-up CPI Forecast			
			Dec. 2024		Dec. 2025	
			YoY	Contribution to Change	YoY	Contribution to Change
Core CPI	100.0	3.4	3.2	-0.2	2.7	-0.7
Apparel	3.2	0.8	1.0	0.0	0.8	0.0
New Cars	4.5	-0.8	-2.9	-0.1	-0.3	0.0
Used Cars	2.4	-8.6	-7.6	0.0	-3.3	0.1
Medical Care Commodities	1.9	3.1	2.9	0.0	3.8	0.0
Health Insurance	0.7	-7.7	3.4	0.1	-1.9	0.0
Medical Services ex. Insurance	7.4	4.2	4.7	0.0	3.7	0.0
Pets	1.3	1.6	2.5	0.0	1.9	0.0
Household Furnishings + Ops.	5.6	-1.3	-1.8	0.0	-0.5	0.0
Personal Care	2.9	2.9	3.2	0.0	2.6	0.0
Rent + OER	43.1	5.6	4.9	-0.3	3.7	-0.8
Public Transportation	1.5	-4.7	0.9	0.1	1.3	0.1
Private Transportation Services	6.8	12.9	9.5	-0.2	4.9	-0.5
Misc. Goods and Services	18.7	4.2	4.1	0.0	3.2	-0.2
Headline CPI	100.0	3.3	3.1	-0.2	2.5	-0.7
Core CPI	79.6	3.4	3.2	-0.2	2.7	-0.6
Food	13.4	2.1	2.5	0.0	2.8	0.1
Energy	7.0	3.5	2.2	-0.1	0.1	-0.2

Source: Department of Labor, Goldman Sachs Global Investment Research

Spencer Hill**Ronnie Walker**

Disclosure Appendix

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We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, CFA, Ronnie Walker, Manuel Abecasis, Tim Krupa, Elsie Peng and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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