

US Daily: May CPI Preview (Abecasis/Hill)

- We expect a 0.25% increase in May core CPI (vs. 0.3% consensus), corresponding to a year-over-year rate of 3.50% (vs. 3.5% consensus). We expect a 0.11% increase in May headline CPI (vs. 0.1% consensus), which corresponds to a year-over-year rate of 3.36% (vs. 3.4% consensus). Our forecast is consistent with a 0.20% increase in CPI core services excluding rent and owners' equivalent rent and with a 0.19% increase in core PCE in May. 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 a slower pace of inflation in consumer electronics, personal care, and other consumer products, reflecting price declines in the Adobe dataset and consistent with price cuts announced by large retailers. Second, we expect car insurance prices to keep rising but for the pace of increases to slow—we forecast a 1% increase in the car insurance component, compared to 1.8% in April and 2.6% in March. Third, we expect rent and OER inflation to remain stable at 0.35% and 0.42%, respectively, reflecting a normalization in the pace of new-tenant rent growth and a larger gap between new- and existing-tenant rents among single-family units, which are weighted more heavily in OER, than in the overall rental market.
- 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, car insurance, and housing. We forecast year-over-year core CPI inflation of 3.5% and core PCE inflation of 2.8% in December 2024.

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May CPI Preview

We expect a 0.25% increase in May core CPI (vs. 0.3% consensus), corresponding to a year-over-year rate of 3.50% (vs. 3.5% consensus). We expect a 0.11% increase in May headline CPI (vs. 0.1% consensus), which corresponds to a year-over-year rate of 3.36% (vs. 3.4% consensus), reflecting lower energy (-1.4%) and unchanged food prices. Our forecast is consistent with a 0.20% increase in core services excluding rent and owners' equivalent rent in May. Exhibit 1 provides a component-level summary of our forecast.

Exhibit 1: We Expect a 0.25% Increase in Core CPI in May

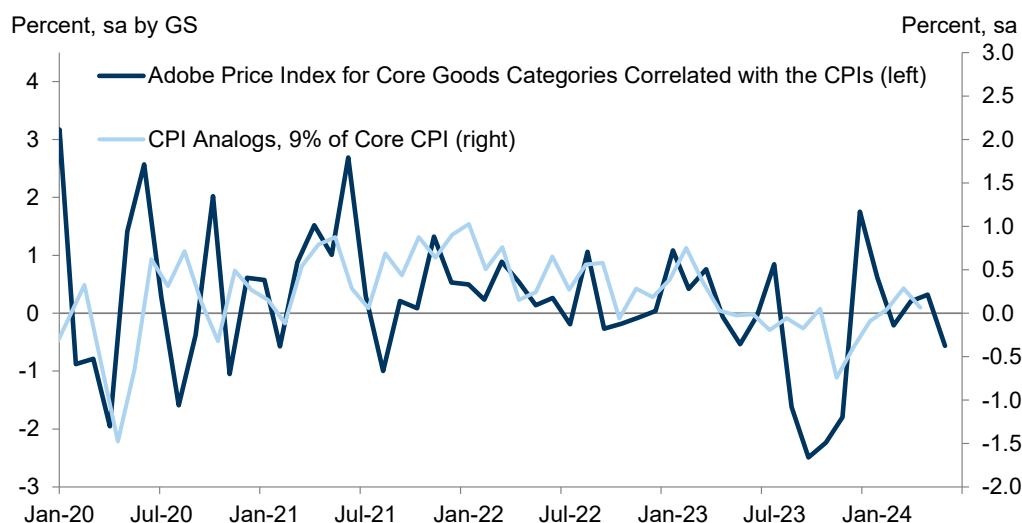
	Weight	Core CPI		
		3-Month Trend	April, MoM SA	May, MoM SA, GS Forecast
Core	100%	0.34%	0.29%	0.25%
Apparel	3%	0.8%	1.2%	-0.4%
New cars	5%	-0.2%	-0.4%	-0.3%
Used cars	2%	-0.7%	-1.4%	1.1%
Motor vehicle parts	1%	-0.2%	-0.1%	0.2%
Medical care commodities	2%	0.2%	0.4%	0.3%
Tobacco	1%	0.4%	0.0%	0.3%
Rent of primary residence	10%	0.41%	0.35%	0.35%
Lodging away from home	2%	0.0%	-0.2%	0.5%
Medical care services	8%	0.32%	0.45%	0.40%
Public transportation	1%	0.7%	0.7%	-2.0%
Transportation services ex-public	7%	1.3%	0.9%	0.7%
Pets	1%	0.4%	-0.2%	-0.1%
Recreation ex-pets	6%	0.1%	0.2%	0.0%
Education	3%	0.3%	0.3%	0.2%
Communication	4%	0.2%	0.2%	0.1%
Household furnishings and ops.	5%	-0.2%	-0.5%	-0.1%
Personal care	3%	0.3%	0.6%	0.1%
Alcoholic beverages	1%	0.0%	0.1%	0.2%
Owners' equivalent rent	33%	0.43%	0.42%	0.42%
Residual (implicit)	2%			0.2%
Core Goods	23%	-0.05%	-0.11%	0.04%
Core Services	77%	0.47%	0.41%	0.31%
Core Services Ex-Rent and OER	34%	0.51%	0.42%	0.20%
Implied NSA Headline Index Level	--	--	--	314.338

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. Consumer electronics, personal care, and other consumer products. We expect price weakness in consumer electronics, personal care, and other consumer products, reflecting price declines in the Adobe dataset and consistent with price cuts recently announced by large retailers like Target (Exhibit 2).

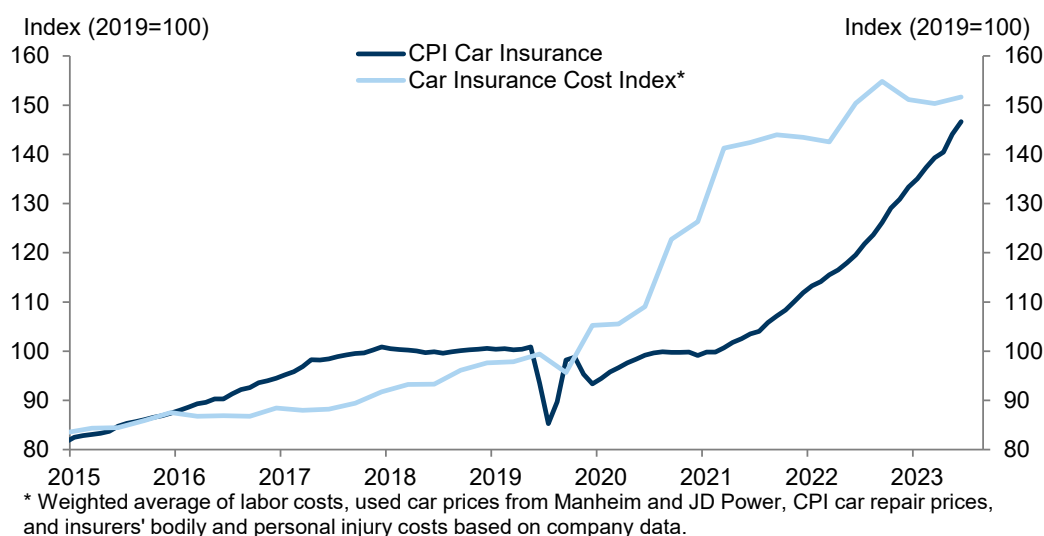
Exhibit 2: We Expect a Slower Pace of Inflation in Consumer Electronics, Personal Care, and Other Consumer Products in May



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

2. Car insurance. We expect car insurance prices to keep rising but for the pace of increases to slow—we forecast a 1% increase in the car insurance component, compared to 1.8% in April and 2.6% in March. 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 1% as Premiums Continue Catching Up to Costs

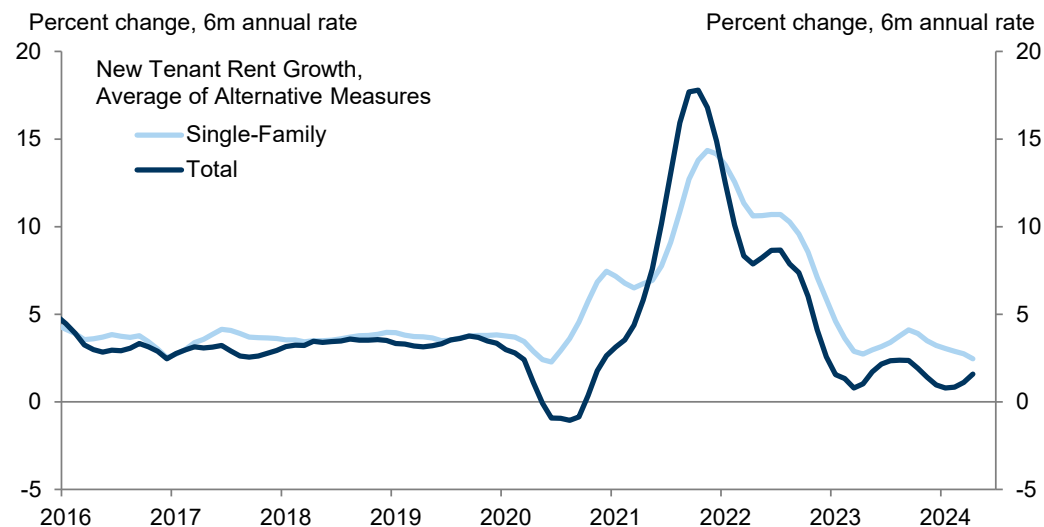


Source: Company data, Manheim, JD Power, Department of Labor, Goldman Sachs Global Investment Research

3. Shelter. We expect rent and OER inflation to remain stable at 0.35% and 0.42%,

respectively, reflecting a normalization in the pace of new-tenant rent growth and a larger gap between new- and existing-tenant rents among single-family units, which have more weight in OER, than in the overall rental market. 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), implying a year-over-year rate of 4.9%.

Exhibit 4: We 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, Goldman Sachs Global Investment Research

Elsewhere in the report, we expect a 3% pullback in airfares, reflecting lower jet fuel prices and declining prices in our equity analysts' online measure of airfares. We also expect a 1.1% increase in used car prices, reflecting higher auction prices in May.

Our forecast is consistent with a 0.19% increase in core PCE in May (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 0.19% Increase in Core PCE in May

Category	CPI		PCE	
	Forecast (% chg, MoM)	Weight (%)	Forecast (% chg, MoM)	Weight (%)
Apparel	-0.40	3.28	-0.40	3.07
New cars	-0.30	4.53	-0.30	2.23
Used cars	1.10	2.39	1.10	1.33
Motor vehicle parts	0.20	0.58	0.34	0.73
Medical care commodities	0.30	1.83	0.30	3.85
Tobacco	0.32	0.68	0.32	0.68
Rent of primary residence	0.35	9.56	0.35	3.95
Lodging away from home	0.50	1.88	0.50	1.21
Medical care services	0.40	8.15	0.31	18.76
Public transportation	-2.05	1.44	-0.80	1.62
Transportation services ex-public	0.66	6.76	0.49	2.08
Pets	-0.10	0.55	-0.25	0.66
Recreation ex-pets	-0.01	5.88	-0.24	9.27
Education	0.25	3.17	0.23	2.01
Communication	0.12	3.77	0.13	1.85
Household furnishings and ops.	-0.10	5.30	-0.15	3.41
Personal care	0.10	3.19	0.10	2.25
Alcoholic beverages	0.18	1.06	0.18	2.26
Owners' equivalent rent	0.42	33.46	0.42	13.44
Financial services			0.42	8.28
Residual (implicit)	0.20	2.03	0.19	17.06
Core Goods	0.04	23.4	0.06	25.5
Core Services	0.31	76.6	0.24	74.5
Core Services Ex-Housing	0.20	33.6	0.19	57.1
Core	0.25	100.0	0.19	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 3.5% and core PCE inflation of 2.8% in December 2024.

Exhibit 6: We Forecast Year-on-Year Core CPI Inflation of 3.5% in December 2024

	Weight	Apr. 2024 YoY	GS Bottom-up CPI Forecast			
			Dec. 2024 YoY	Contribution to Change	Dec. 2025 YoY	Contribution to Change
Core CPI	100.0	3.6	3.5	-0.2	2.7	-0.9
Apparel	3.3	1.4	0.9	0.0	0.9	0.0
New Cars	4.5	-0.4	-2.5	-0.1	-0.3	0.0
Used Cars	2.4	-6.3	-7.2	0.0	-3.3	0.1
Medical Care Commodities	1.8	2.5	1.7	0.0	3.8	0.0
Health Insurance	0.7	-11.6	2.7	0.1	-1.9	0.1
Medical Services ex. Insurance	7.4	4.2	4.8	0.0	3.7	0.0
Pets	1.3	1.7	2.6	0.0	1.9	0.0
Household Furnishings + Ops.	5.6	-1.7	-1.3	0.0	-0.1	0.1
Personal Care	3.0	3.7	3.8	0.0	2.6	0.0
Rent + OER	43.0	5.7	4.9	-0.3	3.7	-0.9
Public Transportation	1.4	-4.6	4.4	0.1	1.3	0.1
Private Transportation Services	6.8	13.7	10.4	-0.2	4.9	-0.6
Misc. Goods and Services	18.7	4.3	4.1	0.0	3.2	-0.2
Headline CPI	100.0	3.4	3.1	-0.3	2.6	-0.8
Core CPI	79.7	3.6	3.5	-0.1	2.7	-0.7
Food	13.4	2.2	3.2	0.1	3.1	0.1
Energy	6.9	2.5	0.2	-0.2	0.1	-0.2

Source: Department of Labor, Goldman Sachs Global Investment Research

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Disclosure Appendix

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