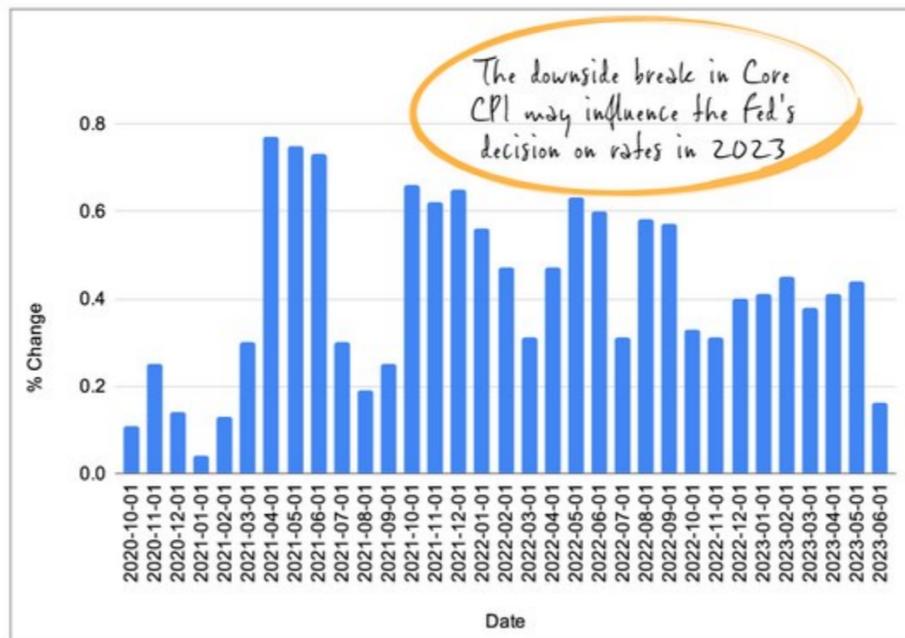


Why the Drop in Inflation Was Such a Big Deal

Sometimes, a picture is worth 1,000 words. So I decided to include an image of the June Consumer Price Index (CPI) report to help put inflation in better perspective:

In Perspective

Core CPI rose 0.16% in June 2023, the smallest year-over-year increase since February 2021



Source: Fred.StLouisfed.org, July 12, 2023

Core CPI, which excludes volatile food and energy prices, rose just 0.16 percent for the month, the lowest reading in more than two years and a significant downside break. There are a number of reasons why it was such a big deal, including:¹

- It was a downside surprise compared to the consensus estimate of 0.30%.
- On a YoY basis, 0.16% translates to 1.92% inflation on an annual basis. Whoa!
- It may give the Fed some flexibility with interest rates in the second half of 2023.
- June's Producer Price Index, released the day after the June CPI report, rose less than expected, building on the optimism about inflation.

I don't put too much weight on individual reports, so at this point, I'm looking for more information before drawing any conclusions about the economy, inflation, and interest rates.

Also, inflation is tricky, and people can have different experiences with rising prices depending on their spending habits. So please, contact me if you are concerned about inflation. Reports showing inflation is trending lower are great, but your experience with inflation matters most to me.

1. CNBC.com, July 13, 2023. "S&P 500 rises for a fourth day on more encouraging inflation data."

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