

Inflation Below Estimates, Jobless Claims Trend Upward



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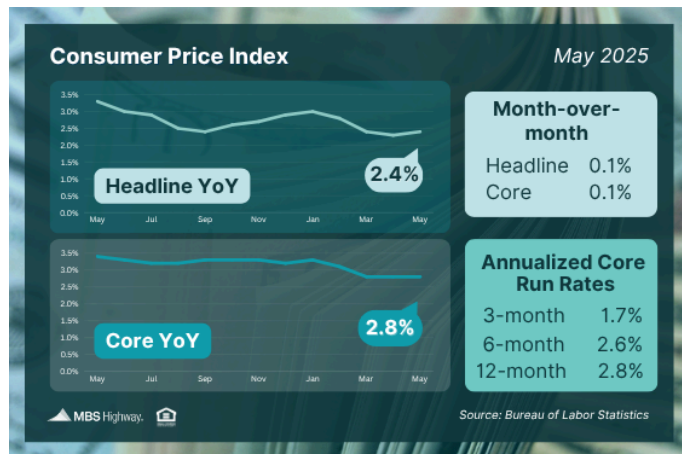


Week of June 9, 2025 in Review

Consumer and wholesale inflation data was softer than anticipated in May. However, less encouraging news comes from rising unemployment claims, which indicate continued difficulties in the job market. Read on for further details and analysis.

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Consumer Inflation Cooler Than Forecasts



May's inflation numbers came in softer than expected, with the Consumer Price Index (CPI) rising just 0.1% for the month. On an annual basis, inflation edged up slightly from April's four-year low of 2.3% to 2.4% in May, but still below projections. This lower-than-forecast result was largely influenced by declining energy and gasoline prices, while food prices experienced a modest increase.

The Core CPI, which excludes the more volatile food and energy categories, also increased 0.1% month-over-month and maintained an annual growth rate of 2.8%.

Shelter costs remain the largest driver of inflation, accounting for 35% of the total CPI and 44% of the core CPI. With such a significant share, changes in shelter expenses have a major impact on overall inflation trends. However, it's worth noting that the CPI might overestimate shelter costs compared to more current rental market data, hinting that actual inflation could be even lower than reported.

What's the bottom line? The latest inflation figures were a welcome surprise. Still, it's important to recognize that the effects of tariffs may not yet be fully reflected in these numbers. For example, prices for apparel and both new and used vehicles declined in May, despite expectations that tariffs would push them higher.

This could indicate that companies are still selling inventory purchased at earlier, lower costs or have not yet passed higher expenses on to consumers.

Wholesale Inflation Muted in May

Wholesale inflation remained subdued in May, with the Producer Price Index (PPI) increasing by just 0.1% for the month. On an annual basis, the PPI edged up to 2.6% from 2.5%. Similarly, Core PPI – which excludes volatile food and energy prices – also rose by 0.1% for the month, while its yearly rate declined to 3%.

What's the bottom line? This report on wholesale inflation was more favorable than anticipated and, like the CPI data, has not yet shown any widespread effects from tariffs.

In addition, the PPI figures are particularly important because they influence the Personal Consumption Expenditures (PCE) index, which is the Federal Reserve's preferred measure of inflation. A closer look at the data reveals that key categories shared with the PCE index, including airline passenger services and portfolio management, saw lower prices in May compared to April.

This trend suggests that the upcoming PCE report, scheduled for release on June 27, could also point to easing inflation.

Unemployment Claims Trend Higher

Weekly initial jobless claims remained steady at 248,000, marking the highest level since October. In addition, continuing claims jumped by 54,000 to reach 1.956 million. For the past year, continuing claims have stayed above 1.8 million and have now exceeded 1.9 million for the third consecutive week.

What's the bottom line? The recent uptick in initial unemployment claims, along with consistently high continuing claims, points to ongoing challenges within the job market. Furthermore, since many individuals only receive unemployment benefits for 26 weeks, the rise in continuing claims as benefits expire suggests underlying labor market weakness and a slower pace of hiring.

It's important to note that the Federal Reserve has a dual mandate: to maintain stable prices and to support maximum employment. Despite low inflation readings and increasing signs of weakness in the labor market, the Fed is widely expected to keep its benchmark Federal Funds Rate unchanged at its next meeting on June 18.

Given the ongoing uncertainty regarding the impact of tariffs on prices and overall economic conditions, policymakers have adopted a cautious "wait and see" approach.

Family Hack of the Week

June 16 marks National Fudge Day, and this simple Chocolate Fudge recipe from Food Network makes the perfect celebratory treat. Yields approximately 64 delicious squares.

Begin by combining a 14-ounce can of sweetened condensed milk with 2 cups of semisweet chocolate chips and a pinch of fine sea salt in a small saucepan. Stir thoroughly to coat all chips with milk. Cook over low heat until the chocolate melts completely, creating a glossy, thick hot fudge texture. Finish by stirring in 1 1/2 teaspoons of vanilla and 1 cup of chopped walnuts until nuts are fully coated.

Prepare a 9-inch baking pan by lining the bottom and sides with foil or parchment paper, leaving approximately 4 inches of overhang on two opposite sides to serve as handles for easy removal later. Pour the fudge mixture into the pan, spreading evenly into all corners. Allow the fudge to cool to room temperature, then refrigerate for 3 hours until firmly set.

Once set, use the foil handles to lift the fudge from the pan, then cut into small squares for serving.

What to Look for This Week

The biggest news this week will be the Fed's two-day meeting, which begins Tuesday, with the Monetary Policy decision and press conference following Wednesday afternoon.

Tuesday also brings Retail Sales data for May and an update on this month's home builder confidence reading. On Wednesday, look for May's Housing Starts and Building Permits data along with the latest Jobless Claims figures.

The markets will be closed Thursday for Juneteenth.

Technical Picture

After falling below their 50-day Moving Average on Friday, Mortgage Bonds finished last week sitting at that same level. If they move decisively lower, the next support level is at the 25-day Moving Average. The 10-year Treasury yield closed out the week within a range defined by support at the 100-day Moving Average and resistance at the 25-day Moving Average.