Outlook

Inflation Stays Elevated as Geopolitical Pressures Fade

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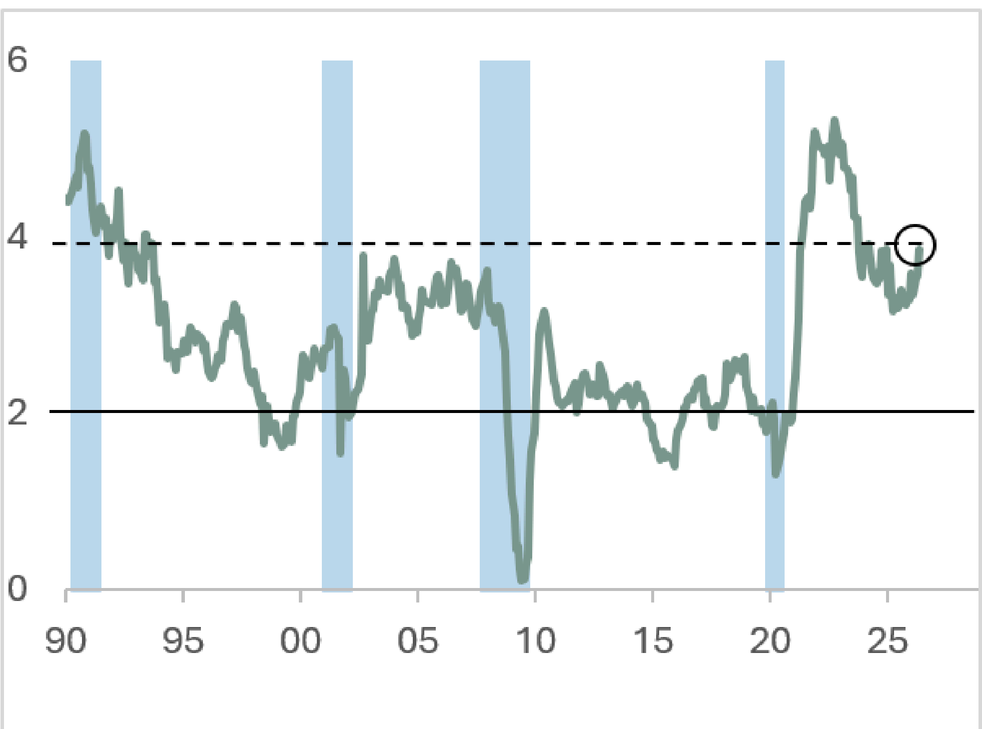
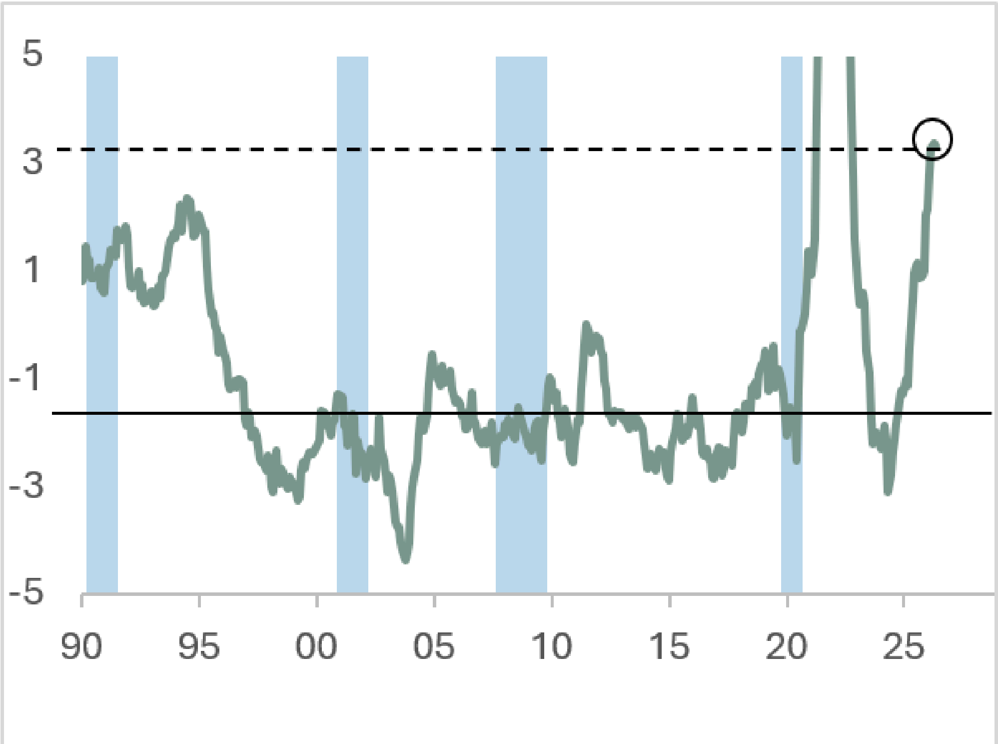
While the recent comedown in oil prices means headline measures of inflation, including June's PCE deflator, are likely to soften, ***price growth outside of Strait of Hormuz sensitive items such as food, energy, and goods, has also accelerated***. After achieving a regional bottom at 2.6% YoY in April 2025, the core PCE deflator has since accelerated to 3.4% YoY, with roughly +35 bps of this increase attributable to the Iran war. Prices for even the most geopolitically insulated items — core services excluding housing — have accelerated to a near 4% rate (shown below). ***Because core services excluding housing prices are largely outside of the Fed's control, achieving 2% price stability requires even lower inflation in the categories the Fed can influence***, such as goods.

Core PCE Services Prices ex. Housing (%YoY)...



Source: BEA, Haver, SMBC Nikko

PCE Deflator: Durable Goods (%YoY)...



Source: BEA, Haver, SMBC Nikko

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