

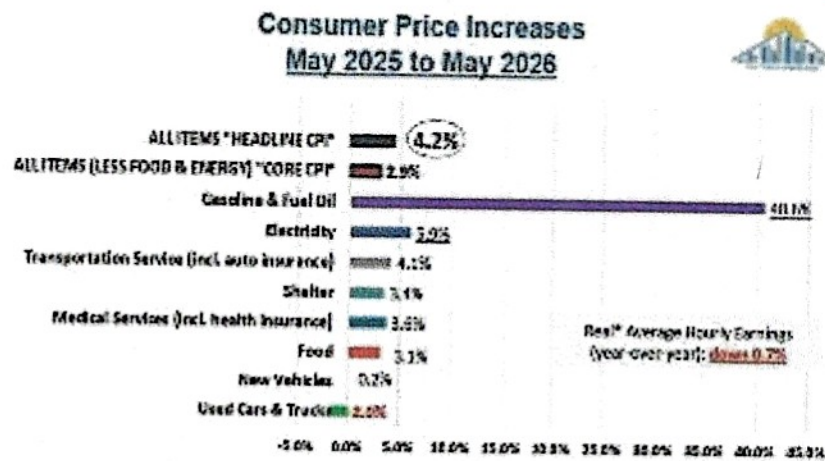
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Relentless inflation is putting households in tough spot

CURE

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Last week's inflation report showed that price pressures accelerated again in May, with the Consumer Price Index rising 0.5% for the month and 4.2% over the year — the highest inflation since April 2023.



Energy was the primary driver, accounting for more than 60% of the monthly increase. Gasoline prices rose 7% in May alone, and those gas prices are now up more than 40% from a year ago, largely reflecting the oil-supply shock tied to the war with Iran.

However, not all energy inflation is geopolitical and due to supply disruptions. Electricity prices have risen 6% over the past year. Unlike gasoline, electricity costs are increasingly influenced by demand-driven forces tied to AI, data centers, electrification, and the overall need for additional grid capacity.

When we combine all types of energy, prices have increased 24% over the year. *Note* Other areas seeing increases included shelter, airline fares, medical care that includes our health insurance costs, and apparel. I find this relevant because the expectation was for rents and home prices to decline and, while they've moderated, they are still increasing. All of these are bare-bone essentials that every consumer has to buy. *Note* New-car prices are stable, while used-car prices have declined.

Overall, I see broad-based inflation with a rate that is now more than two times what is considered stable and acceptable.

And perhaps most important for households, inflation is now rising faster than wages. *Note* Real average hourly earnings fell in May and were down almost a full percentage point from a year ago, meaning purchasing power continues to erode despite ongoing job growth. This is a particularly hard one for workers to stomach. They continue to work, day in and day out, but their paycheck buys less and less. As I mentioned last week, the U.S. savings rate is very low by historical standards at 2.6%, so these accelerating inflationary pressures put a majority of U.S. households in a tough spot with little option but to significantly curtail spending, even on essentials or to borrow to maintain spending.

Lastly, with this acceleration in inflation but with the unemployment rate low and stable, it's highly unlikely that the Federal Reserve is contemplating any interest rate cuts in the foreseeable future.

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