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March Consumer Price Index: At The Peak, But It's A Long Way Down

- The total CPI rose by 1.2 percent in March (up 1.241 percent unrounded); the core CPI rose by 0.3 percent (up 0.324 percent unrounded)
- On a year-over-year basis, the total CPI is up 8.5 percent, and the core CPI is up 6.5 percent as of March

The total CPI rose by 1.2 percent in March, below our forecast of a 1.3 percent increase. Kind of. The unrounded change in the headline CPI was 1.241 percent, the unrounded change in our forecast was 1.250 (note to self: next time, round down). In any event, on an over-the-year basis the total CPI is up 8.5 percent, the largest such increase since December 1981. The core CPI rose by 0.3 percent, short of our below-consensus forecast of a 0.4 percent increase, which puts CPI inflation at 6.5 percent. A sharp decline in used motor vehicle prices and below-trend increases in primary and owners' equivalent rents held the increase in the core CPI down. Many are noting that March will likely mark the peak rate of CPI inflation, and we agree with that. For starters, base effects will kick in as soon as the April data – recall that it was last spring that inflation accelerated sharply, meaning that the over-the-year comparisons will get easier from here on. At the same time, retail gasoline prices have followed crude oil prices down from the peaks seen soon after Russia's invasion of Ukraine began, even if retail gasoline prices have fallen by disproportionately less than have crude oil prices. And, the likelihood of at least some fading of demand in response to higher prices means goods prices should lose some momentum. Still, we'd caution against a false sense of comfort, as "past the peak" and "low inflation" are a long way apart – we anticipate CPI inflation running at over 6.0 percent in Q4 2022 and remaining over 3.0 percent next year. We'll also add a caveat here, which is that the latest round of shutdowns in key manufacturing and shipping hubs across China threatens to further delay a more complete normalization of global supply chains, which in turn threatens to keep goods price inflation higher than would otherwise be the case. Perhaps more significantly, even the deceleration in inflation we and many others expect in the months ahead won't dissuade the FOMC from moving back to a neutral policy stance, and doing so rather hurriedly.

Led by an 18.3 percent increase in gasoline prices, the overall energy index was up 11.0 percent in March, leaving it up 32.0 percent year-on-year. Reflecting higher fuel costs, retail electricity prices rose by 2.2 percent in March and are up 11.1 percent year-on-year. As noted above, retail gasoline prices have slipped a bit over recent weeks, which will help soften the over-the-year increases, but with prices still north of \$4.00 per gallon, the level of gasoline prices will remain much higher than consumers had been accustomed to, and that's what they'll respond to as opposed to less severe over-the-year changes. Food prices rose by 1.0 percent in March, matching February's increase, and are up 8.8 percent year-on-year. More tellingly, prices for food consumed at home, mainly reflecting prices at grocery stores, rose by 1.5 percent in March, leaving them up 10.0 percent. We've noted that, in contrast to energy prices, which reacted immediately, the increases in food prices stemming from Russia's invasion of Ukraine will likely be more spaced out over a longer period of time. There is the immediate impact of reduced grains supplies, but with global fertilizer supplies also constrained, that will impact planting acreage and crop yields for an unknown length of time, thus potentially sustaining food price inflation.

Prices for used motor vehicles dropped by 3.8 percent in March, capturing more, but not all, of the declines on the wholesale level seen over February and March. Still, this helped push the index of core goods (consumer goods excluding food and energy) prices down by 0.4 percent in March, though the index is still up 11.7 percent year-on-year. If the declines in used vehicle prices moderate, as they should, there is still plenty of support for core goods prices, particularly in light of the latest round of shutdowns across China. At the same time, core services inflation – which hit 4.7 percent in March – is likely to accelerate further in the months ahead, particularly should March's below-trend increases in rents prove a one-off as we expect will be the case.

Saying that the worst of inflation is behind us doesn't necessarily mean things will get better, it just means they'll get worse at a slower rate. Prices will continue to rise, they'll just rise at a slower rate. At best, that's cold comfort, and won't matter for the FOMC.

