ECONOMIC UPDATE

REGIONS

May 11, 2022

April Consumer Price Index: Even The Modest Deceleration Puts The FOMC Further Behind

- The total CPI rose by 0.3 percent in April (up 0.331 percent unrounded); the core CPI rose by 0.6 percent (up 0.569 percent unrounded)
- On a year-over-year basis, the total CPI is up 8.3 percent, and the core CPI is up 6.2 percent as of April

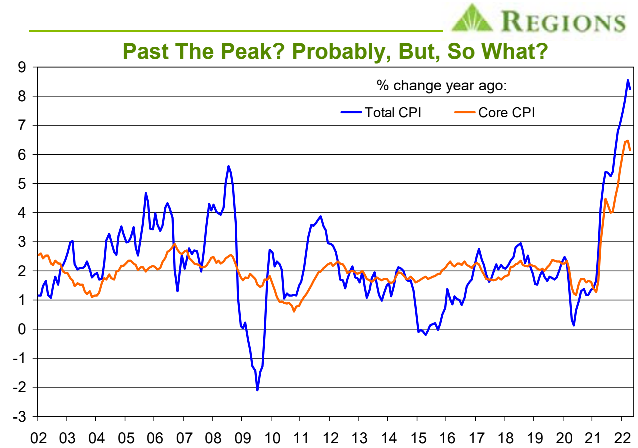
The total CPI rose by 0.3 percent, more than the 0.2 percent gain we and the consensus expected, while the core CPI was up by 0.6 percent, topping what we and the consensus expected. While gasoline was a drag on the increase in the total CPI, that drag was less severe than we anticipated, accounting for our miss on the headline CPI. As for the core CPI, rent growth came in faster than we anticipated, while prices for new motor vehicles rose by more than we anticipated. We noted in this week's *Economic Preview* that a change in how BLS gathers source data for its new vehicles index would result in an April increase larger than the recent run rate, which we thought posed some upside risk to our forecast, and this proved to be the case. While this is basically noise which sheds no light on underlying inflation trends (and will not be carried into the PCE Deflator), that is of little consolation as inflation pressures remain intense and broad based. On an over-the-year basis, the total CPI is up 8.3 percent as of April with the core CPI up 6.2 percent.

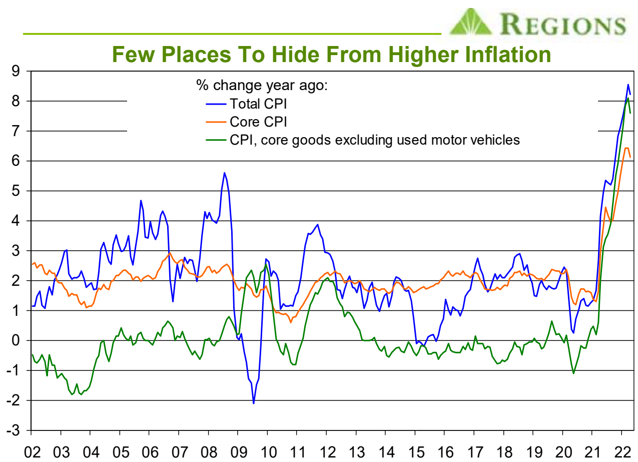
The broad energy index fell by 2.7 percent, with retail gasoline prices down 6.1 percent. As noted above, this was a smaller decline than we anticipated, which traces through to the not seasonally adjusted data; it could be that the CPI data did not pick up all of the decline in prices over the second half of April. Of far more significance, however, is that gasoline prices have turned sharply higher over recent weeks, to the point that the week of May 9 marks a new high with further increases on tap as we head into the peak driving season. While seasonal adjustment will account for a good portion of these increases, it won't account for all of them and, either way, seasonal adjustment won't help anyone paying higher pump prices and having to alter their spending patterns. In contrast to the decline in gasoline prices, prices for residential gas service and electricity posted hefty increases in April, and electricity prices are up 13.7 percent year-on-year. Food prices rose 0.9 percent in April, with prices for food consumed at home up 1.0 percent (up 10.8 percent year-on-year) and prices for food consumed away from home up 0.6 percent (up 7.2 percent year-on-year). Restaurant prices were up 0.9 percent in April, good for an over-the-year increase of 8.7 percent, in part reflecting stronger demand.

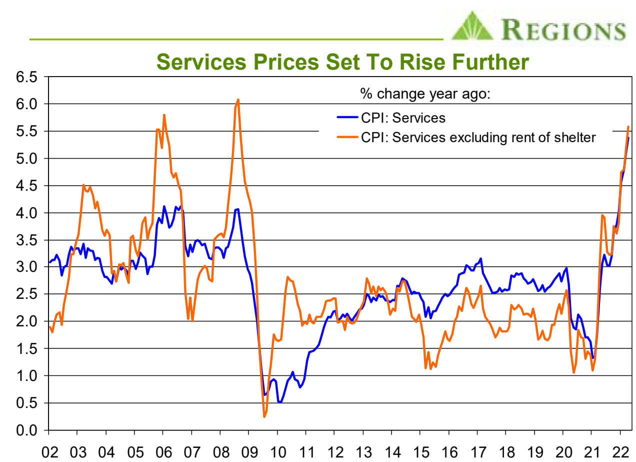
Prices for used motor vehicles fell further in April, dropping by dropped by 0.4 percent, though this still leaves them up 22.7 percent year-on-year. At the same time, prices for new motor vehicles rose by 1.1 percent and are up 13.2 percent year-on-year but, as noted above, a methodological change that took effect with the April data disrupted this series. As expected given surging demand, lodging rates were up 1.7 percent in April, while air fares were up by a whopping 18.6 percent, which in part reflects higher demand and in part reflects soaring fuel prices, leaving air fares up 33.3 percent year-on-year. Primary rents rose by 0.6 percent in April, leaving them up 4.8 percent year-on-year. As we've noted, the CPI data lag other measures of market rents, which are uniformly rising at a much more rapid rate than the CPI measure of market rents. As such, this will be a source of persistent upward pressure on the core CPI over coming months.

Core (non-food, non-energy) goods prices rose by 0.2 percent in April, with falling prices for used motor vehicles continuing to act as a weight even if to a lesser extent in April. While the over-the-year increases in prices for core goods excluding used motor vehicles (middle chart) diminished a bit in April, this reflects base effects more than anything else, as it was last April this series kicked into a higher gear. We do think diminished demand for consumer durable goods will weigh on core goods price inflation, but at the same time core services inflation is increasing, even when excluding rents. We have expected to see such a shift, and that services account for a much higher weight in the CPI than do goods is one reason we expect inflation to recede very slowly from current rates.

One can point to the methodological change in measuring new vehicle prices and the spike in air fares as mitigating factors, but the reality is that inflation pressures remain intense and broad based, while core services inflation is accelerating. This leaves the FOMC that much further behind the inflation curve.







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