ECONOMIC UPDATE

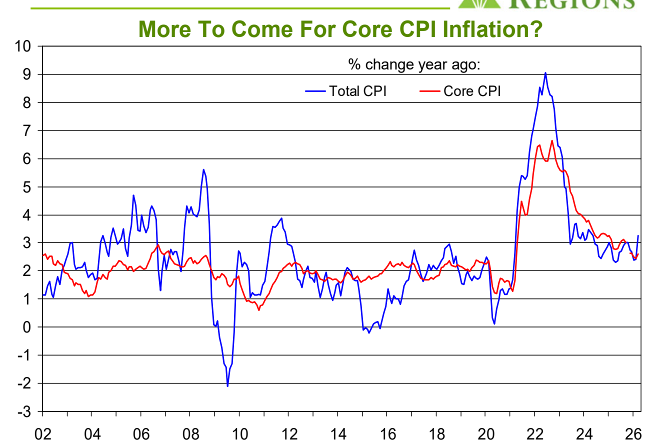
REGIONS

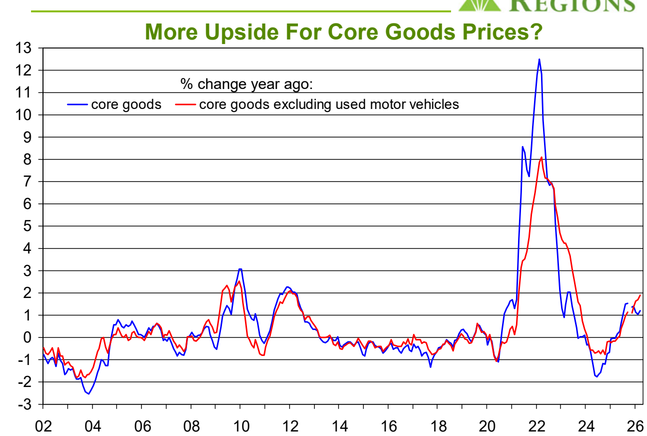
April 10, 2026

March Consumer Price Index: More To Come For Core CPI Inflation?

- The total CPI rose by 0.9 percent in March (up 0.865 percent unrounded); the core CPI rose by 0.2 percent (up 0.196 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.3 percent and the core CPI is up 2.6 percent as of March

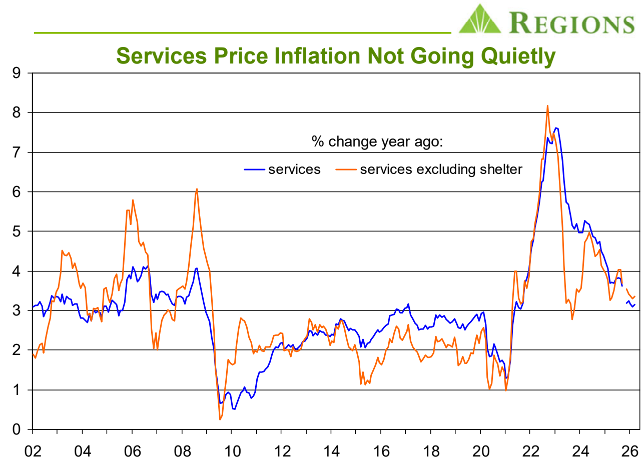
The total CPI rose by 0.9 percent in March, matching the consensus forecast but shy of the 1.0 percent increase our forecast anticipated, while the core CPI rose by 0.2 percent, one-tenth below what we and the consensus expected. As of March, the total CPI is up 3.3 percent year-on-year, while the core CPI is up 2.6 percent. The spike in retail gasoline prices triggered by the conflict in the Middle East is the obvious culprit behind what was the largest monthly increase in the total CPI since June 2022, and the temptation may be to point to the mild increase in the core CPI as evidence that inflation pressures are well contained and headline inflation will fall back in line upon resolution of the conflict. We'd caution against making any such assessment on a few grounds. We continue to argue that the BLS's methodology of dealing with the missing data for October 2025, which is to assume prices did not change during the month, is causing measured CPI inflation to be understated by around twenty basis points, and one can point to a few quirks in the monthly CPI data, particularly prices of used motor vehicles, as also biasing core CPI inflation downward. It is also the case that even prior to the start of the conflict in the Middle East there were numerous signs that inflation pressures beneath the retail level had yet to abate, which at some point would be reflected in the CPI. We'd also argue that we haven't seen the last of tariff pass-through and that this will remain a source of upward pressure on core goods prices. Also, due in part to different weighting and measurement protocols, there is a considerable gap between core inflation as reported in the CPI data and as reported in the data on the PCE Deflator, the latter being the FOMC's preferred gauge of price changes. It should also be kept in mind that the effects of the conflict in the Middle East are not a one-off in terms of the data on prices, and the longer the conflict endures the greater the degree to which increases in energy prices spill over into other categories, including food and various components of core prices. In other words, while the mild March print on core CPI is not unwelcome, we don't think it is necessarily a useful guide to what lies ahead.





Retail gasoline prices were up by 21.5 percent in March, and while this was smaller than the increase our forecast anticipated, it's worth noting that gas prices ended March over nine percent above the monthly average. As such, though not to the extent seen in March, higher gasoline prices will contribute to the increase in the total CPI in the April data. With sturdy increases in other components such as electricity rates and household heating fuels adding to the increase in gasoline prices, the overall index of energy prices rose by 10.9 percent in March. Food prices were flat in March, with prices of food consumed at home down by 0.2 percent. Recall that in the February data there were large increases in a few categories which were mainly responsible for the 0.4 percent increase in prices for food consumed at home, and while we expected payback in the March data, at some point recent jumps in costs of producing and transporting food figure to turn up in the CPI data.

Core goods prices were up by just 0.1 percent in March, but this incorporates the reported 0.4 percent drop in prices for used motor vehicles, which pushes the CPI measure of used vehicle prices further out of alignment with other measures showing increases on the wholesale level, making this series a thorn in the side of our forecasts of the core CPI. The BLS's index of prices of core goods excluding used vehicle prices was up 0.2 percent in March, yielding a year-on-year increase of 1.9 percent, the largest such increase since August 2023. Still, the monthly increase seems a bit mild, with the 1.0 percent increase in apparel prices (the not seasonally adjusted data show the largest March increase since 2015) to some extent offset by declines in prices for appliances and electronics. The monthly price changes in these categories have been quite volatile over the past several months, but if we are correct in our assumptions about tariff pass-through, coming months will see further upward drift in these components.



Core services prices were up 0.2 percent in March, in part reflecting further moderation in rent growth (rents carry roughly double the weight in the CPI as they do in the PCE Deflator) and moderation in prices for medical services and auto insurance. We're not sure, however, that these latter two categories will remain as friendly to core CPI inflation.

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