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April Consumer Price Index: Mixed Signals Beneath The Obvious Headline Print

- The total CPI **rose** by 0.6 percent in April (up 0.640 percent unrounded); the core CPI **rose** by 0.4 percent (up 0.376 percent unrounded)
- On a year-over-year basis, the total CPI is **up** 3.8 percent and the core CPI is **up** 2.8 percent as of April

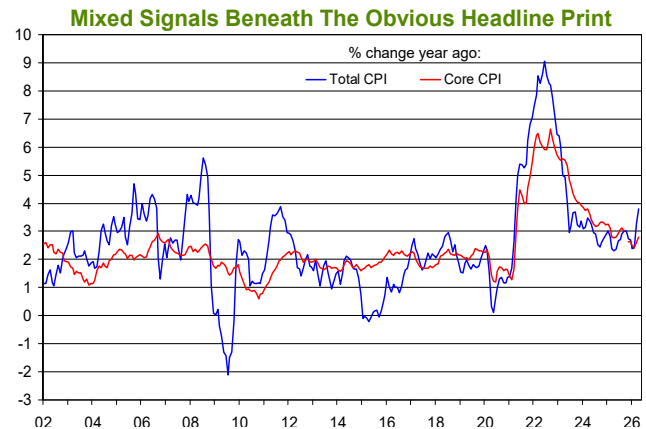
The total CPI rose by 0.6 percent in April while the core CPI rose by 0.4 percent, each matching our forecast with the latter one-tenth higher than the consensus forecast. As of April, the total CPI is up 3.8 percent year-on-year while the core CPI is up 2.8 percent. As anticipated, higher energy prices were a main driver of the increase in the headline CPI and an adjustment in the CPI measures of rents that basically removed the remaining distortions from the missing October data supported the increase in the core CPI, by our estimate adding one-tenth of a point to the monthly change. At the same time, however, increases in core goods prices were more subdued than our forecast anticipated but outside of rents increases in core services prices were larger than our forecast anticipated. Given what we think to be a high volume of noise in the data, we’re not so sure the April CPI report is all that good gauge of the intensity of underlying inflation pressures. We continue to think, however, that the effects of the conflict in the Middle East are adding to already well entrenched inflation pressures, making it unlikely that inflation will embark on an orderly path back to the FOMC’s 2.0 percent target once the conflict is resolved.

The overall index of energy prices was up 3.8 percent in April, with the CPI measure of retail gasoline prices up 5.4 percent after seasonal adjustment (unadjusted gasoline prices were up just over eleven percent). While that was a smaller increase than our forecast anticipated, the 2.1 percent increase in electricity rates was larger than our forecast, so on net the contribution from higher energy prices was pretty much in line. Electricity rates are being pushed higher by both supply side and demand side factors, with higher costs of producing electricity on one side and demand from data centers on the other side. The overall index of food prices was up 0.5 percent, with prices for food consumed at home up by 0.7 percent, greater payback for March’s decline than we anticipated. The increases in grocery store prices were broadly based, with five of the six major grocery store price aggregates up in April. Prices for food consumed away from home were up by just 0.2 percent, extending a run of restrained increases in this category despite higher input and labor costs, which is consistent with signs of softer demand.

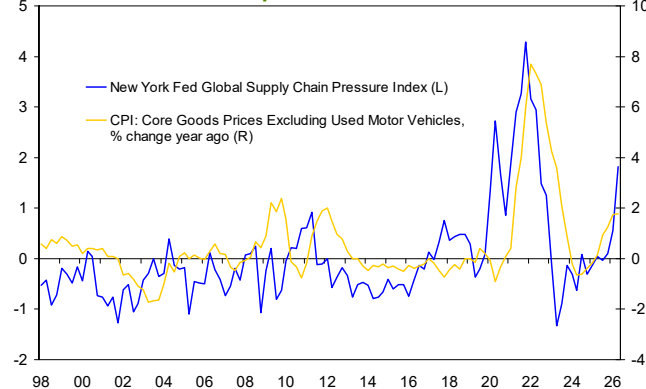
In our preview of the April CPI report we pointed to a number of what we saw as swing factors that would shape the path of the core CPI, and we’ll touch on those here. First, as our forecast anticipated, both primary rents and owners’ equivalent rents were up by 0.5 percent in the April data, reflecting the CPI panel for data collection on rents rolling over, thus removing the impact of the missing October data. We noted that this would add over one-tenth of a point to the monthly increase in the core CPI as rents account for just over forty-two percent of the core CPI, and one implication is that the May data will bring increases in rent more in line with the moderating run rate, which will hold down the May increase in the core CPI. One thing we got wrong, however, is lodging costs, which proved firmer on both a not seasonally adjusted basis (up 4.0 percent) and on a seasonally adjusted basis (up 2.4 percent) than our forecast anticipated. We had questioned whether apparel prices would back off in April after the surge – up by eight percent – seen over the prior three months and the answer, that only an economist could love, is “yes and no.” Apparel prices were down by 0.4 percent on a not seasonally adjusted basis but up by 0.6 percent on a seasonally adjusted basis. Though some will point to the decline in unadjusted prices as a sign that tariff pass-through has run its course, we’ll point out that the decline in unadjusted apparel prices is less than half the typical April decline, so we won’t write off further tariff pass-through just yet. While our forecast called for a hefty increase in prices for used motor vehicles after the CPI had been lagging the increases seen over recent months in wholesale measures, once again we came up short as the CPI data show no change in used vehicle prices, leaving an even larger gap between the CPI measure and market based measures. We had thought updated source data would yield a firmer read on health insurance premiums, but this is another “yes and no” answer, as the April data show a smaller decline than over recent months but not the modest increase we anticipated. On the whole, however, “supercore” services price inflation is showing no signs of quietly fading away.



Mixed Signals Beneath The Obvious Headline Print




Another Source Of Upward Pressure On Goods Prices?




Services Price Inflation Not Going Quietly

