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April Consumer Price Index: Energy The Main Culprit, But Weakness is Broad Based

- The total CPI fell by 0.8 percent (-0.759 percent unrounded) in April; the core CPI fell by 0.4 percent (-0.448 percent unrounded)
- On a year-over-year basis, the total CPI is up 0.3 percent and the core CPI is up 1.4 percent as of April

The total CPI fell by 0.8 percent in April, matching the consensus forecast but short of our forecast of a 1.1 percent decline, while the core CPI fell by 0.4 percent, matching our below-consensus forecast. On an over-the-year basis, the total CPI is up 0.3 percent and the core CPI is up 1.4 percent as of April. The unrounded decline of 0.448 percent in the core CPI is the largest monthly decline in the history of the data, which go back to 1957. Though lower energy prices were a key contributor to the decline in the CPI in April, they were by no means the lone culprit, as there were broad based price declines across goods and services. BLS reports COVID-19 related shutdowns resulted in a larger number of prices being temporarily unavailable and thus being imputed in the April data. So, while the reported changes in the headline and core CPI may not be entirely accurate, they clearly convey the general tone, i.e., a sharp and sudden collapse in demand for a wide range of goods and services leading to lower prices. That said, with economic activity beginning to open up, even if in a halting manner, while prices may slip further, they are unlikely to do so to nearly the extent seen in April.

On a not seasonally adjusted basis, retail gasoline prices fell by 15.2 percent, a far cry from the increases typically seen in the month of April, such that retail gasoline prices were down by 20.6 percent on a seasonally adjusted basis. Retail gasoline prices are down 32.0 percent year-on-year. Food prices were up by 1.5 percent in April, with prices for food consumed at home up by 2.6 percent and prices for food consumed away from home up by 0.1 percent. The increase in food prices is larger than our forecast anticipated and accounts for much of our miss on our forecast of the total CPI. As is no surprise given supply constraints, prices for beef, pork, chicken, and eggs were up sharply, as were prices for fresh fish and seafood. Prices for household supplies, including paper products and cleaning products, were up sharply in April.

Shelter costs were flat in April; primary rents and owners' equivalent rents both posted 0.2 percent increases, well below recent run rates, while prices for lodging away from home were down by 7.1 percent, a smaller decline than we anticipated based on the extent to which hotel room rates have fallen. We were also surprised by the extent to which motor vehicle prices held up in April, as prices for new motor vehicles were flat and prices for used vehicles were down by 0.4 percent, in each case firmer than various industry reports suggested. Prices for motor vehicle insurance fell by 7.2 percent, reflecting rebates many providers offered to customers due to significantly fewer miles being driven over recent weeks.

Helped along by a 4.7 percent decline in apparel prices, core goods prices were down by 0.7 percent in April, leaving them down 0.8 percent year-on-year. This weakness is not out of line with what for some time has been persistent weakness in core goods prices, weakness which is likely to be sustained over coming months. What is striking, even if not surprising, is the 0.4 percent decline in core services prices in April, which is the largest monthly decline since December 1982. This should, however, be taken with a grain of salt (feel free to make it a large grain, as salt prices were flat in April), as many service providers were shut down during April, so there is some question as to what measured prices are actually measuring. For instance, prices for admission to sporting events were reported to have risen by 2.6 percent in April, which is only odd in the context of there having been no actual sporting events in April. Even the reported 1.0 percent decline in prices for movies, theaters, and concerts seems a bit odd, given that such venues were also shut down during April. The point isn't to quibble about specifics. As noted above, while there is some play in reported prices for specific services, the April CPI data capture the spirit of the sudden stop in a wide swath of economic activity. As economic activity begins to normalize in the weeks ahead, so too should core services prices, though core goods prices are likely to remain under downward pressure. Either way, it will be some time before inflation is once again on the FOMC's radar.

