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April Consumer Price Index: More Than Base Effects At Work Here

- > The total CPI **rose** by 0.8 percent in April (up 0.770 percent unrounded); the core CPI **rose** by 0.9 percent (up 0.917 percent unrounded)
- > On a year-over-year basis, the total CPI is **up** 4.2 percent and the core CPI is **up** 3.0 percent as of April

The total CPI rose by 0.8 in April while the core CPI increased by 0.9 percent, both far ahead of our above consensus forecasts of 0.3 percent and 0.4 percent, respectively. On an unrounded basis, the increase in the headline CPI is the largest monthly increase since June 2009 while the increase in the core CPI is the largest monthly increase since September 1981. On an over-the-year basis, the total CPI is up 4.2 percent and the core CPI is up 3.0 percent. As we noted in our weekly *Economic Preview*, the tendency will be to brush aside April's hot CPI readings on the premise that base effects are propping up the over-the-year comparisons, and these base effects will fade in the months ahead. To be sure, base effects have no bearing on the monthly increases, but the standard retort there is that what we are seeing now are "transitory" inflation pressures as the economy reopens and the demand for services picks back up. If you look through the details of the April CPI report, however, it isn't hard to see evidence of the supply shortages that have made their presence felt in other data series, which goes a long way toward accounting for the 2.0 percent increase in core goods prices, the largest monthly increase on record. We have from the start of the debate over inflation been on record with our view that inflation pressures were more broadly based and will be more persistent than many are assuming. To be sure, one month of data settles nothing, but even if subsequent months do not bring increases as large as those in the April data, inflation pressures look set to last for a while.

The broad energy index fell by 0.1 percent in April, mainly reflecting a 1.4 percent decline in gasoline prices. Note that gasoline prices rose on a not seasonally adjusted basis, but that increase was smaller than is typical for the month of April, hence the decline reported in the seasonally adjusted data. While retail gasoline prices have jumped in the wake of the Colonial Pipeline being offline, it is too soon to know high prices may go and how long they may stay elevated, but this could impact the May CPI data. Prices for electricity and gas rose sharply in April, blunting the effect of lower gasoline prices on the broad energy index. Food prices were up 0.4 percent in April, with prices for food consumed at home up 0.4 percent and prices for food consumed away from home up 0.3 percent. It is a bit surprising to us that prices for food consumed away from home have not firmed up more given increased demand and meaningfully higher labor costs.

Core services prices rose by 0.5 percent in April, with rents acting as somewhat of a drag. Keep in mind that rents account for over 40 percent of the core CPI, so the 0.2 percent increases in primary rents and owners' equivalent rents held down the overall services index. Outside of rents, however, services prices were up sharply which, again, reflects increased demand as the economy reopens further and people feel more free to move about. Air fares rose by 10.2 percent, rental car rates rose by 16.2 percent, and lodging rates rose by 7.6 percent. While no one expects to see such outsized price increases being sustained, we do nonetheless think we're in the early stages of the "normalization" of services prices many have been expecting. Moreover, to the extent that input costs and labor costs continue to rise at rapid clips, that will sustain increases in services prices as demand continues to come back online.

As noted above, core goods prices posted their largest monthly increase on record in April. Prices for used motor vehicles were up 10.0 percent and new vehicle prices were up 0.5 percent, in each case lean inventories are running into robust demand, and we think it unlikely the supply constraints will ease to a meaningful degree any time soon. Prices for home furnishings, computers, and electronics products also rose sharply in April.

While base effects provide a convenient out for those inclined to take it, we think it more relevant that the annualized 3-month change in the total CPI was 7.2 percent in April with the core CPI up 5.6 on a similar basis. Clearly there are demand side and supply side effects at play in the April data and, as such, we'd caution against taking the April data too lightly.

