# ECONOMIC UPDATE

REGIONS

April 10, 2024



## March Consumer Price Index: Is The Trend No Longer Our Friend?

- The total CPI rose by 0.4 percent in March (up 0.378 percent unrounded); the core CPI rose by 0.4 percent (up 0.359 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.5 percent and the core CPI is up 3.8 percent as of March

The total CPI rose by 0.4 percent in March, matching our above-consensus forecast and pushing the year-on-year increase up to 3.5 percent, up from February's rate of 3.2 percent. The core CPI also rose by 0.4 percent, the third straight monthly advance of 0.4 percent and, with one single exception, higher than every forecast, with that exception being our forecast. This puts the core CPI up 3.8 percent year-on-year, matching February's over-the-year increase. As we noted in this week's *Economic Preview*, we thought the monthly change in the core CPI would largely be a matter of rounding and noted that our unrounded forecast of a 0.359 percent increase would not, in terms of the economic impact, be meaningfully different than the 0.3 percent increase anticipated by the consensus forecast. But, as if to show that a little difference can make a big impression, the 0.4 percent print is being taken rather badly thus far, with a spike in yields on 10-year U.S. Treasury notes in the aftermath of the release of the data, while market pricing shows the initial cut in the Fed funds rate being pushed even further out, with the September FOMC now basically printing as a toss-up. We have over the past several weeks been noting that beyond the residual seasonality that tend to plague the inflation data in the months of January and February, we saw more concerning signs that the momentum on inflation had shifted, but thought those signs would manifest in higher prices for core consumer goods. The March data, however, show very little evidence of this, with a jump in apparel prices being an exception. Still, even scanning the data for the services sector, we see more oddly large increases across a few categories rather than signs of pervasive and lasting increases. This gets us back to our point that little differences can make a big impression; had the core CPI printed at 0.3 percent, many of these oddly large increases would have likely been chalked up as quirks, lovable or otherwise, in the data, but with the 0.4 percent print they are triggering more concern but yielding no definitive conclusions as to the underlying trends.

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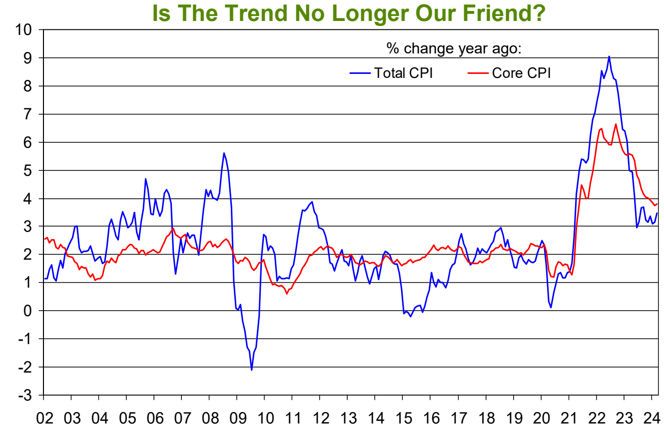
**Is The Trend No Longer Our Friend?**

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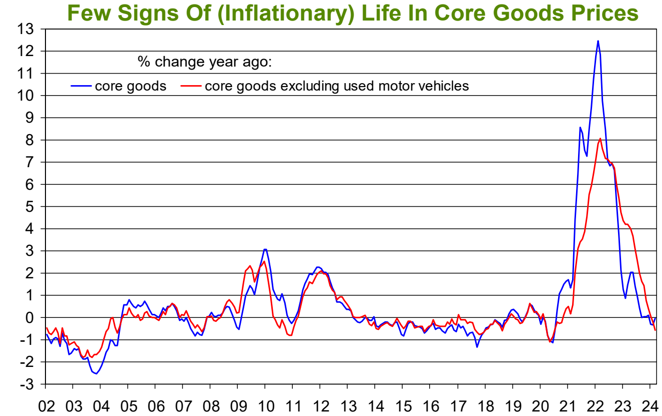
**Few Signs Of (Inflationary) Life In Core Goods Prices**

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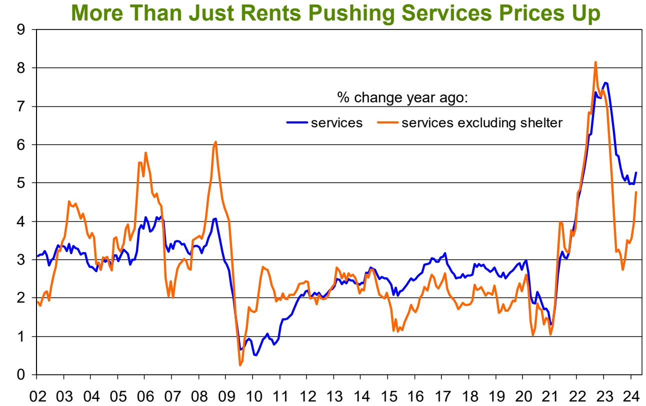
**More Than Just Rents Pushing Services Prices Up**




For a second straight month, the index of core services prices rose by 0.5 percent, which follow the 0.6 percent increase in January. Both owners' equivalent and primary rents were up by 0.4 percent in March, the former surprising us to the downside. The "supercore" services gauge, which also strips out shelter costs, jumped by 0.7 percent, after a 0.9 percent increase in January and a 0.5 percent increase in February. Medical care costs, particularly prices for hospital services and health insurance premiums, have been a big driver of the increases in core services prices, though we will note here that medical care costs are measured differently in the PCE Deflator, the FOMC's preferred gauge of inflation. March also saw jumps in the costs of household services, motor vehicle repair, veterinary services, and motor vehicle insurance premiums. In the latter case, sizable increases have been the norm, but in the other categories mentioned here, the monthly increases have been very volatile, which goes to our point about the lack of clear momentum in either direction.

Core goods prices fell by 0.2 percent in March, with prices for both new and used motor vehicles declining. With new motor vehicle production and inventories looking more normal after significant and lengthy disruptions, prices for new vehicles have softened and dealers are increasingly resorting to sales incentives. But, the BLS's measure of core goods prices excluding used motor vehicles continues to drift lower, down both month/month and year/year in March. As noted above, we had looked for some signs of firming in core goods prices excluding used motor vehicles, and while we are surprised to see little evidence of that in the March data, we by no means are casting our concerns aside. This will clearly be something to watch in the data in the months ahead.

The broad energy index was up by 1.1 percent in March, led by a 1.7 percent increase in gasoline prices. As we've noted, gasoline prices continue to push higher, ahead of normal seasonal increases, which means gasoline will remain a source of upward pressure on headline inflation. Food prices were up by 0.1 percent in March, with prices for food consumed away from home flat and prices for food consumed away from home up 0.3 percent, with price increases in each category having calmed down significantly of late.

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