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April Consumer Price Index: Progress, Even If Not All That Much

- › The total CPI **rose** by 0.3 percent in April (up 0.313 percent unrounded); the core CPI **rose** by 0.3 percent (up 0.292 percent unrounded)
- › On a year-over-year basis, the total CPI is **up** 3.4 percent and the core CPI is **up** 3.6 percent as of April

Both the total CPI and the core CPI rose by 0.3 percent in April, the former below the 0.4 percent increase we and the consensus expected and the latter matching the consensus forecast but above our forecast of a 0.2 percent increase. On a year-on-year basis, the total CPI is up 3.4 percent as of April while the core CPI is up 3.6 percent. Softer prints on food and the non-gasoline components of the energy index than we expected account for our miss on the total CPI, while a larger increase in costs for transportation services than we expected account for our miss on the core CPI. Still, as was the case with the March data, when the core CPI matched our forecast but came in above the consensus forecast, the economic implications of the April core CPI matching the consensus forecast but topping our forecast are pretty much nonexistent. In each case, the differences come down to rounding, and in the case of the April data the difference between the unrounded increase in the core CPI of 0.292 percent and our forecast of a 0.244 percent increase is trivial. That said, the April data were greeted with a heavy sigh of relief by market participants, perhaps a bit spooked by yesterday's release of the report on the April Producer Price Index, as being supportive of cuts in the Fed funds rate by year-end 2024, particularly with some of the data on economic growth looking wobbly. But, just as we were cautioning against putting too much stock in the inflation data coming in ahead of consensus expectations in each of the first three months of the year, we'd offer the same caveat when processing the report on the April CPI, as we're not sure it changes all that much.

The overall energy index rose by 1.1 percent in April, falling a bit short of our forecast. While the 2.8 percent increase in gasoline prices on a seasonally adjusted basis was in line with our forecast, we were wrong-footed by the reported 0.1 percent decline in electricity costs and prices for residential gas service falling more than we anticipated. It is worth noting that gasoline prices fell modestly over the first half of May, and even modest increases on a not seasonally adjusted basis will be magnified by seasonal adjustment, meaning gasoline will almost surely be a drag on the headline CPI for May. Prices for food consumed at home fell by 0.2 percent in April, extending a recent run of weakness. Prices for food consumed away from home rose by 0.3 percent, a smaller increase than we had expected given commentary around the effects of higher labor costs on menu prices from many of the chain restaurants. On an over-the-year basis, overall food prices were up 2.2 percent for a third straight month, and while the pace at which food prices are rising has clearly moderated, what is far more relevant is that they are still rising and the cumulative price increases over the past few years have been harsh on household budgets.

Core goods prices fell by 0.1 percent in April, with falling prices for both new and used motor vehicles acting as a meaningful drag. Still, outside of apparel prices, reported to have risen by 1.2 percent despite not seasonally adjusted apparel prices falling by 0.1 percent, and medical care commodities, there were few signs of upward pressure on goods prices in April. Prices for consumer durable goods such as furniture and appliances fell further in April, and we suspect falling prices had a hand in a weak April retail sales print. We will note that the outsized decline in prices for used motor vehicles is exaggerating the over-the-year decline in the core goods index, down 1.2 percent as of April. We see the BLS measure of core goods prices excluding used motor vehicles as being a more reliable gauge of patterns in core goods prices; as of April, this measure is down 0.6 percent year-on-year.

Core services prices rose by 0.4 percent in April, but while smaller than the increases seen in each of the prior three months this still leaves them up 5.3 percent year-on-year. While the unrounded data show some moderation in the rent growth, that still leaves the CPI measures out of alignment with market-based measures. That said, rising prices for core services excluding housing remain a source of meaningful upward pressure on overall services prices, with the ex-housing measure up 4.9 percent year-on-year as of April. After a 2.6 percent increase in March, motor vehicle insurance costs rose a further 1.8 percent in April, leaving them up 22.6 percent year-on-year. Prices for personal services also continue to rise at a rapid pace, which to some extent reflects patterns in labor costs.

