ECONOMIC UPDATE

REGIONS

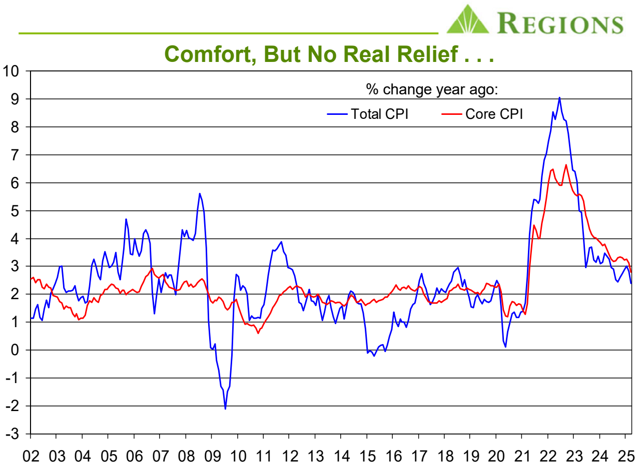
April 10, 2025

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

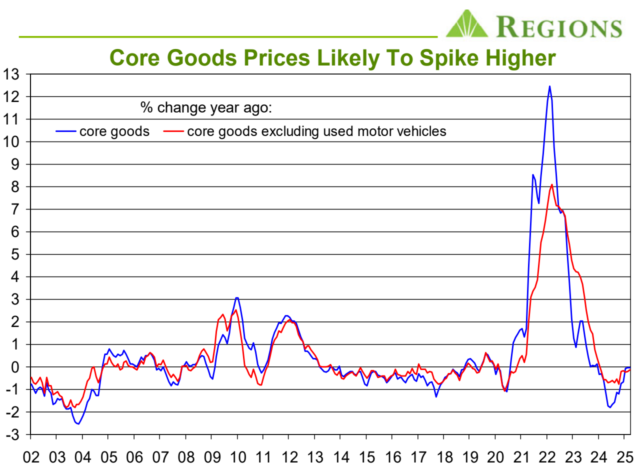
March Consumer Price Index: Out Like A Lamb; The Lion Has Yet To Arrive

- The total CPI fell by 0.1 percent in March (down 0.050 percent unrounded); the core CPI rose by 0.1 percent (up 0.057percent unrounded)
- On a year-over-year basis, the total CPI is up 2.4 percent and the core CPI is up 2.8 percent as of March

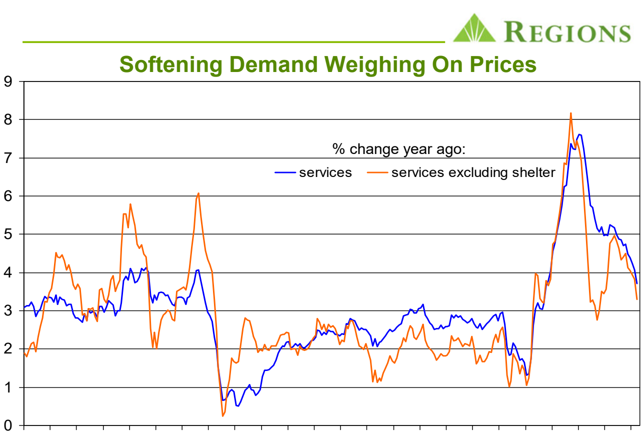
The total CPI fell by 0.1 percent in March, while the core CPI rose by 0.1 percent, more tame than our below-consensus forecasts (0.0 percent, and +0.1 percent, respectively) anticipated. On a year-on-year basis, the total CPI is up 2.4 percent as of March and the core CPI is up 2.8 percent. That the March data are so tame reflects a sharp decline in energy prices – which was considerably magnified by seasonal adjustment – and weakness in discretionary services prices, particularly air fares and lodging rates, while the softening in used vehicles prices on the wholesale level over recent months turned up in the CPI data. That core goods prices, even aside from used motor vehicles, were so weak in March came as a surprise to those anticipating price increases stemming from higher tariffs, though as we pointed out in this week's *Economic Preview,* we thought March was too soon to have expected pass-through to the retail level even in the cases where higher tariffs had gone into effect. That, however, looms as a source of potentially significant price increases in the months ahead, even if the worst-case scenario was avoided, which is why many are looking through the soft March CPI prints. Either way, we do think it worth noting that much of the moderation in prices for core services reflects a material softening in demand as consumers have become increasingly anxious about the path of prices, the labor market, and the broader economy. It remains to be seen whether, or to what extent, movements on the trade front in the coming weeks and months turn those anxieties into reality.



The overall index of energy prices fell by 2.4 percent in March. On a not seasonally adjusted basis, retail gasoline prices fell by 0.9 percent, quite at odds with the increases typically seen in the month of March. As such, on a seasonally adjusted basis, gasoline prices fell by 6.3 percent, as our forecast anticipated. At the same time, however, electricity rates and prices for residential gas services posted sharp increases. The overall index of food prices rose by 0.4 percent, surprising us to the upside as prices for food consumed at home jumped by 0.5 percent after having been flat in February. Prices for meats, poultry, and dairy products rose sharply in March. On a year-on-year basis, prices for food consumed at home are up 3.8 percent as of March, the largest such increase since October.



Core goods prices were down by 0.1 percent in March, the first decline since December. Prices for used motor vehicles fell by 0.7 percent, a larger decline than we expected, while prices for new vehicles were up by 0.1 percent. As we routinely note, we consider the BLS's index of core goods prices excluding used motor vehicles to be the more reliable gauge of core goods prices, and this index was flat in March. Prices for major appliances tumbled by 1.8 percent, and electronics prices were also down sharply, while furniture prices rose during the month. We've noted that demand for consumer durable goods had been notably strong, as consumers were in many cases pulling purchases forward to avoid tariff-related price increases, so in that sense we expected core goods prices to have been firmer in March. Either way, coming months are likely to bring significant increases.



Perhaps more notably, core services prices rose by just 0.1 percent in March, the smallest monthly increase in this index since January 2021. There was relief on insurance costs, as premiums for home and motor vehicle insurance fell. The much bigger drag, however, came in the form of sharp declines in air fares, lodging rates, and car rental rates. That we expected declines in these components was a key reason our forecast for the March CPI was below the consensus forecast, but the actual declines were even larger than we expected. Again, though, this points to the degree to which demand for discretionary services has softened amid growing concerns over the path of the economy and sharp declines in equity prices. It isn't clear to us that coming months – a seasonally strong time of the year – will see much of a pick-up in demand, and if we are correct on this point weakness in these components will be exaggerated in the seasonally adjusted data.

To be sure, when it comes to inflation, the focus is on what may lie ahead. All we know is that it won't be as bad as it might have been but will still be worse than it would have been and could still be as bad as it might have been but, at least for now, won't be. That, unfortunately, is about as precise as we can be at this point in time.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com