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April Consumer Price Index: Still Watching, Still Waiting . . .

- The total CPI rose by 0.2 percent in April (up 0.221 percent unrounded); the core CPI rose by 0.2 percent (up 0.237 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.3 percent and the core CPI is up 2.8 percent as of April

Both the total CPI and the core CPI rose by 0.2 percent in April, each matching our forecast but each falling short of the 0.3 percent increase the consensus forecast expected. On a year-on-year basis, the total CPI is up 2.3 percent as of April while the core CPI is up 2.8 percent. Those looking for tariff-related increases in goods prices in the April data can point to hefty increases in prices for appliances, furniture, and certain categories of electronics, but at the same time apparel prices, television prices, and vehicle prices tell a different story. A surprising drop in the overall index of food prices weighed on the total CPI, while owners' equivalent rent surprised to the upside. As we anticipated, there was further weakness in discretionary services prices, continuing the recent run of sagging prices that could easily extend out over the next few months, particularly in the seasonally adjusted data. Pauses and deals aside, the reality is that tariff rates are higher and some portion of that will stick, meaning that over coming months the data on goods prices will likely tell a more convincing, and consistent, story about the impact on retail-level prices. That said, if we are correct in expecting a faster pace of services price disinflation, that will blunt the impact of any pick-up in goods price inflation in terms of measures of overall inflation, as services account for a much heavier weight than do goods prices. That said, at least in the near-term inflation is likely to drift further away from, rather than closer to, the FOMC's 2.0 percent target rate which, barring meaningful deterioration in labor market conditions, will likely keep the Committee anchored to the sidelines.

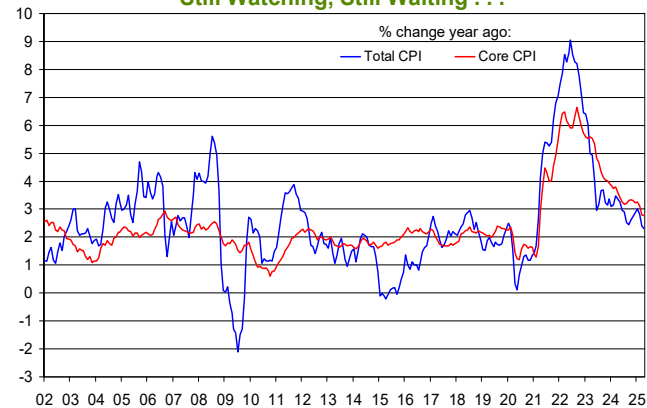
The overall index of energy prices rose by 0.7 percent in April, an increase entirely accounted for by higher costs of electricity and residential gas service, as prices for gasoline and home heating fuels fell across the board. We will, however, note that on a not seasonally adjusted basis, retail gasoline prices rose by 2.9 percent in April, but as this was a smaller increase than is typical for the month, the seasonally adjusted data show a modest decline in prices. Either way, gasoline prices are down 11.8 percent year-on-year. The index of overall food prices fell by 0.1 percent in April, pulled down by a surprising 0.4 percent decline in prices for food consumed at home as prices fell in almost all of the broad components – meats, fruits and vegetables, dairy products – and egg prices fell by 12.7 percent. At the same time, however, prices for food away from home rose by 0.4 percent, as full-service restaurant prices posted a second straight 0.6 percent monthly increase.

We noted in our preview of the April data that despite notably robust sales in March and April, we did not expect motor vehicle prices to make a meaningful contribution to the index of goods prices. Dealers have been somewhat restrained in passing along higher costs, including higher tariffs, in the form of higher prices for new vehicles, and while prices have begun to rise sharply on the wholesale level, as of April that had not translated into higher retail prices for used vehicles. We expect both to begin increasing, perhaps sharply, in the months ahead. More broadly, core (non-food, non-energy) goods prices rose by 0.1 percent in April, leaving them up 0.2 percent year-on-year, and while that may not seem like much, it is nonetheless the largest such increase since August 2023. 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 up 0.2 percent in April, the largest monthly increase since March 2023. Prices for major appliances rose by 1.3 percent in April, while furniture prices also rose sharply. In contrast, apparel prices were notably weak, down 0.2 percent on a seasonally adjusted basis while the not seasonally adjusted data show the largest April decline since 2022.

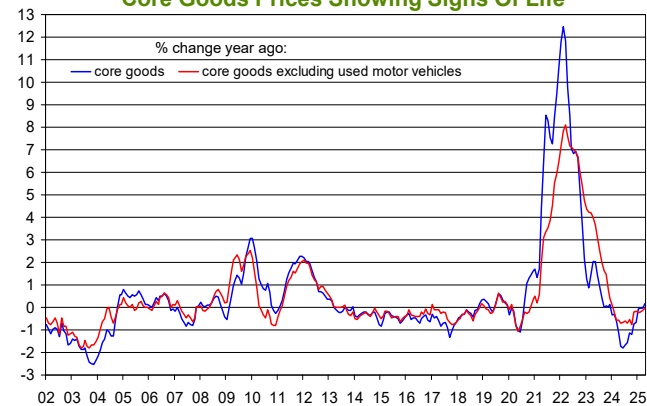
As we anticipated, lodging rates and air fares fell further in April and, as the seasonal factors will become even more punitive, are likely to fall further in the seasonally adjusted data over the next few months. Owners' equivalent rent is proving to be rather stubborn, with a second straight 0.4 percent increase, while firmer insurance prices – motor vehicle, health, home – also supported the core services index. Despite prices being a bit firmer in April than we expected, we do expect the pace of core services disinflation to pick up in the months ahead, acting as an offset to what will be faster goods price inflation.



Still Watching, Still Waiting . . .



Core Goods Prices Showing Signs Of Life



Softening Demand Weighing On Prices

