

U.S. Data Review

- CPI: energy prices down; food prices flat; hints of moderation in underlying inflation

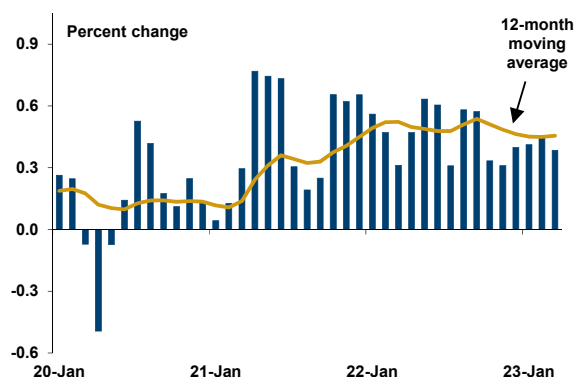
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March CPI

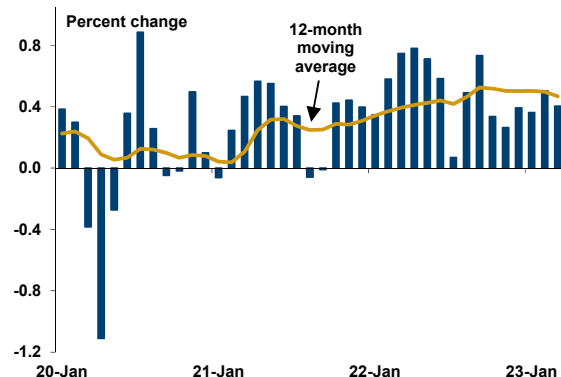
- The headline CPI increased 0.1 percent in March, a bit slower than the consensus view of a pickup of 0.2 percent, while the core component matched expectations with an advance of 0.4 percent.
- Energy prices fell 3.5 percent, continuing the downward trend since last summer. Although still well-above pre-pandemic levels, broad energy prices have fallen 14.4 percent since June 2022. In the latest month, prices of gasoline and natural gas dropped (off 4.6 percent and 7.1 percent respectively). Food prices were unchanged in March (up marginally with less rounding; +0.014 percent), as a decline in prices of food at home offset a brisk increase on the costs of restaurant meals. The March reading for the food component marked a notable shift from advances averaging 0.8 percent per month last year (range of 0.4 percent to 1.1 percent) and an average of 0.4 percent in the first two months of 2023.
- The increase of 0.385 percent in the core component essentially matched the average of 0.381 percent in the past five months, but it was slower than the average of 0.502 percent in the first nine months of 2022 (chart, left).
- The core component again showed a wide dispersion of price changes in March. On the firm side, airline fares jumped 4.0 percent after surge of 6.4 percent in February. Hotel fees also remained under pressure, increasing 2.7 percent after brisk advances in the prior three months. In addition, new vehicle prices showed no sign of cooling (up 0.4 percent). On the soft side, used vehicle prices continued their retreat from recent highs, although the latest easing of 0.9 percent trailed the average of -1.9 percent in the prior six months. The housing components, while up (both owners' equivalent and rent of primary residence increased 0.5 percent), trailed six-month averages of 0.8 percent for primary rents and 0.7 percent for OER. Fed officials had expected housing inflation to slow in 2023. Perhaps the March data on housing prices offered the first evidence of this moderation.
- Service prices excluding energy services and housing services, which are monitored by Chair Powell and his colleagues for signs of slowing in underlying inflation, rose 0.4 percent in March. The latest reading dipped from the average of 0.5 percent in the prior 12 months (chart, right). The March result could be viewed as a mildly favorable development, but it should be interpreted cautiously. We suspect that Fed officials still view underlying inflation as inconsistent with the price stability mandate.

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Core Services Ex. Housing*



* Service prices excluding prices of energy services and housing services.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

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