

U.S. Data Review

- CPI: jump in energy; pressure in core services
- The March CPI suggests the FOMC on hold until at least June

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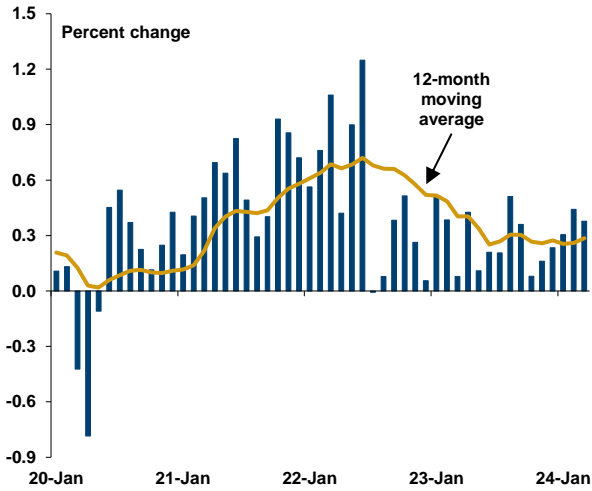
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March CPI

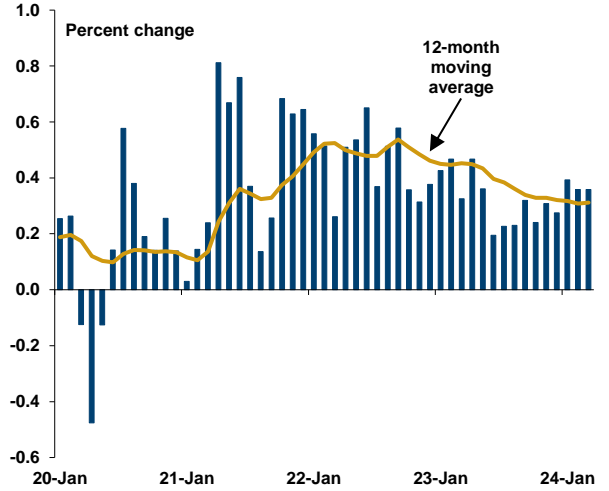
- The March CPI report provided an upside surprise, with both the headline and core indexes rising 0.4 percent (0.378 percent and 0.359 percent, respectively, with less rounding; year-over-year changes of 3.5 percent and 3.8 percent) versus the Bloomberg median expectations of advances of 0.3 percent for both (charts, next page). On three-month and six-month annualized bases, the headline CPI increased 4.6 percent and 3.2 percent, versus 4.0 percent and 3.2 percent, respectively, in February. The core index jumped 4.5 percent, annual rate, in the past three months (versus 4.2 percent in February), with a slightly less troubling (although still unfavorable) change on a six-month basis (+3.936 percent; charts, next page).
- The energy component advanced 1.1 percent after a jump of 2.3 percent in February (+2.1 percent year-over-year; chart, next page). In the latest month, the prices of energy commodities rose 1.5 percent, which followed an advance of 3.6 percent in February. The costs of energy services rose for the 10th consecutive month (+0.7 percent in March; +3.1 percent year-over-year); the latest increase reflected pressure in electricity delivery charges (+0.9 percent), while costs of utility piped gas service were little changed.
- Food prices recorded a subdued advance of 0.1 percent in March after rounding down to no change in February. The latest year-over-year increase of 2.2 percent essentially matched that in February and was down from 2.6 percent in January. Food inflation has fully returned to the benign pre-pandemic trend after the year-over-year advance peaked at 11.4 percent in August 2022. That said, consumers are likely feeling the pinch of higher costs even as inflation in this area has moderated, as the level of the seasonally adjusted food index in March is 25.3 percent higher than that in February 2020 (just before the economy bore the brunt of pandemic-related disruptions).
- The advance in core was the fourth in the past five months that exceeded 0.3 percent, with all three observations in 2024 thus far rounding up to 0.4 percent. On a year-over-year basis, core goods prices eased 0.7 percent (versus -0.3 percent in February), while service prices excluding energy services (core services) jumped 5.4 percent – up two ticks from the February reading. In the latest month, the dip of 0.2 percent in core commodities was influenced importantly by the drop of 1.1 percent in used vehicle prices. New vehicle costs also eased (-0.2 percent), as did the prices of recreation commodities (-0.5 percent). Conversely, price pressure was broadly based in core services (+0.5 percent). Both the rent of primary residence and owners' equivalent rent of residences components rose 0.4 percent (versus 0.5 percent and 0.4 percent, respectively, in February). Other key service categories posted large moves, with core service inflation excluding rents and owners' equivalent rent surging 0.6 percent after advances of 0.5 percent and 0.8 percent in the previous two months (three and six-month annualized growth rates of 8.2 percent and 6.1 percent, respectively; year-over-year advance of 4.8 percent, up from 4.3 percent in February; charts, next page). Medical care services (+0.6 percent) and motor vehicle insurance services (+2.6 percent) were among the areas registering large unfavorable changes.
- While we have long suspected that the Federal Open Market Committee would not cut rates at its April 30/May 1 meeting, the latest CPI print all but closes the door on the possibility. Moreover, although we will not yet abandon our call for a cut of 25 basis points at the June FOMC meeting, we view the chance of a shift as a toss-up at best. If upcoming employment and inflation data are close to what we've seen thus far in 2024, two (or fewer) cuts in the federal funds rate this year will become the likelier scenario. On the point, pricing in fixed income markets has already shifted to reflect only 50 basis points in cuts in 2024.

Headline CPI



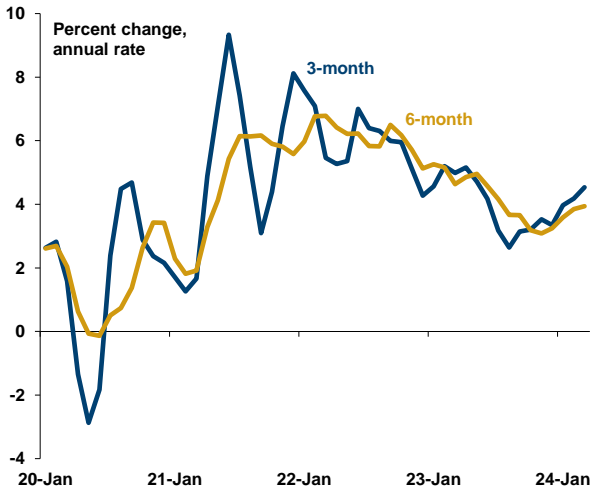
Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



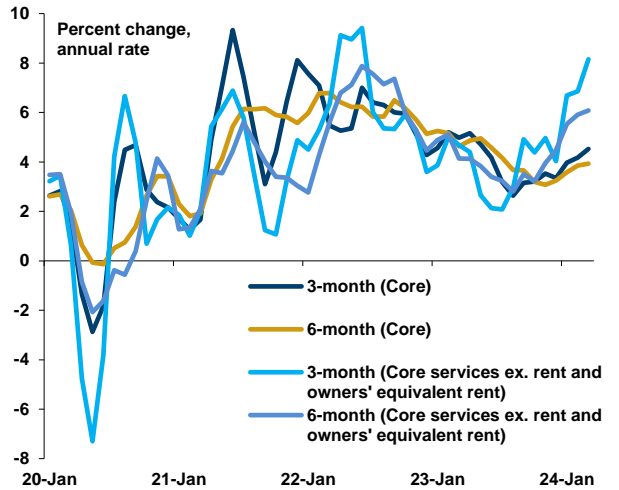
Source: Bureau of Labor Statistics via Haver Analytics

Headline CPI



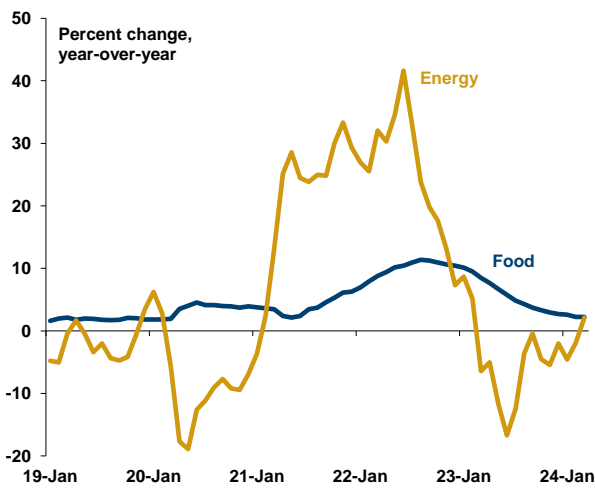
Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



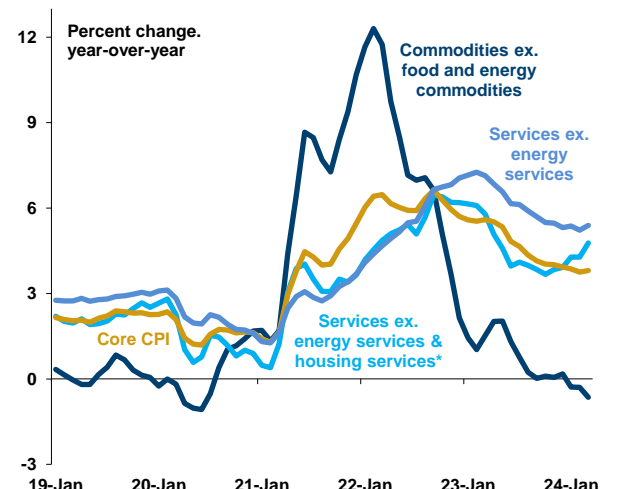
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



* Service prices excluding energy services, rent of primary residence, and owners' equivalent rent.

Source: Bureau of Labor Statistics via Haver Analytics