U.S. Data Review

- CPI: mostly benign reading in March, but outlook remains uncertain

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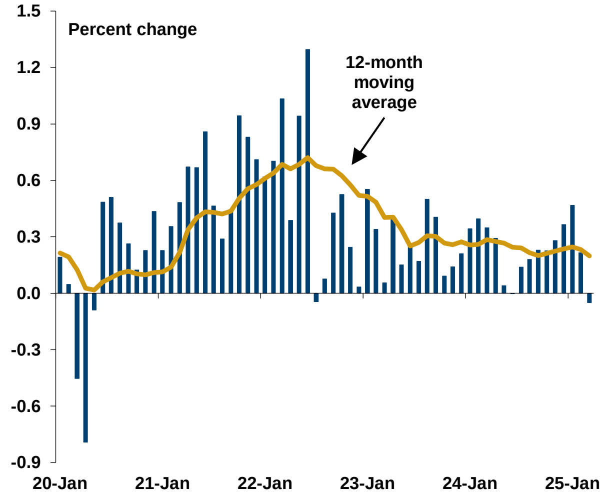
March CPI

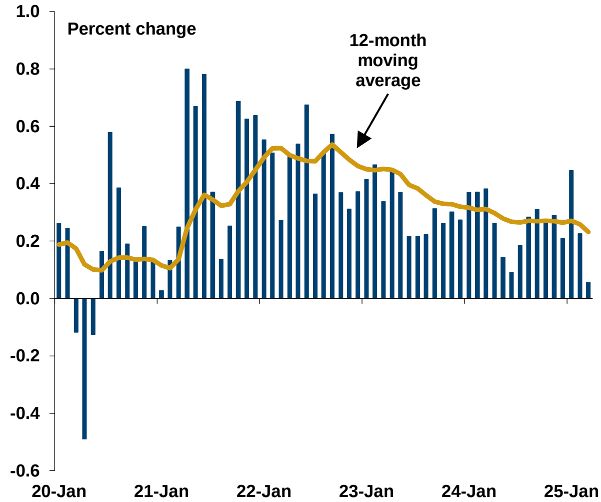
- The CPI printed below expectations in March, with the headline index dipping 0.1 percent and the core measure up 0.1 percent (versus +0.1 percent and +0.3 percent, respectively, expected; charts, below). The monthly changes equated to year-over-year increases of 2.4 percent for the headline (versus 2.8 percent in February) and 2.8 percent for the core index (versus 3.1 percent previously). The results were favorable, but they are backward looking and do little to allay concerns about the potential price effects of tariffs (in whatever form they are ultimately levied).

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

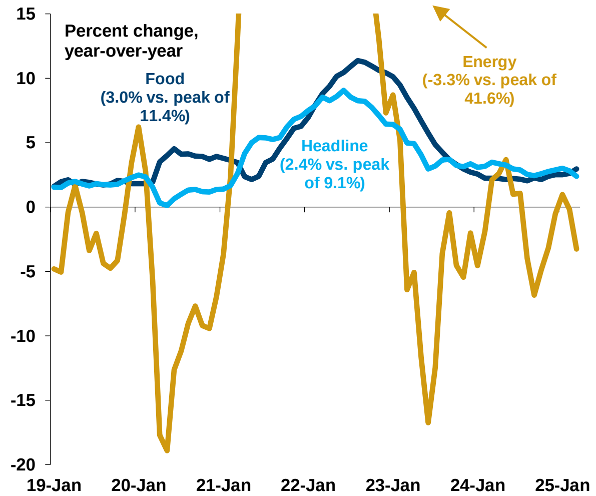
Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

- The energy component fell 2.4 percent in March, which translated to a year-over-year drop of 3.3 percent (versus -0.2 percent in the prior month; chart, right). Prices of energy commodities were soft (-6.1 percent over-the-month; -9.5 percent year-over-year), led by a plunge in the price of gasoline (-6.3 percent). The energy services area, in contrast, provided a partial offset as it rose 1.6 percent after a jump of 1.4 percent in February (+4.2 percent year-over-year). Both the indexes for electricity (+0.9 percent) and utility piped gas service (+3.6 percent) were under pressure in the latest month.

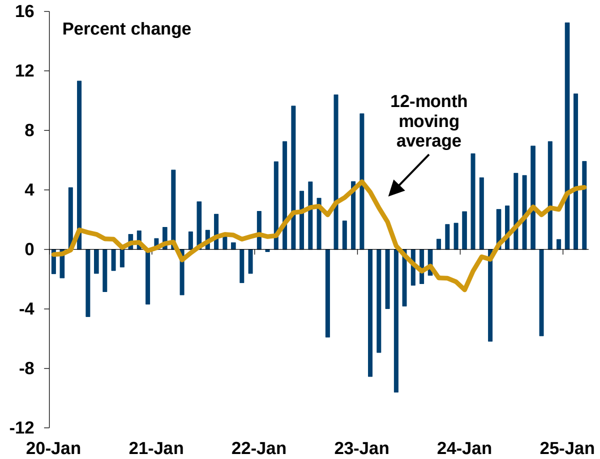
CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

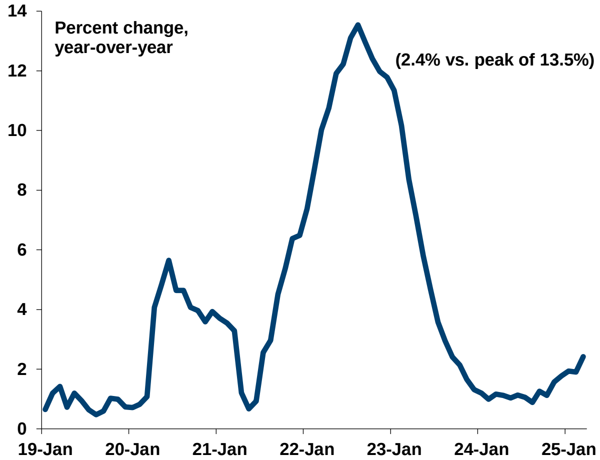
- The food component rose 0.4 percent, with the underlying trend showing hints of acceleration (+3.0 percent year-over-year, up from +2.6 percent in February; chart, right). Prices of food at home were again firm; the measure rose 0.5 percent for the second time in the past three months (with the other observation being a reading of no change in February). Egg prices remained in focus (+5.9 percent after surges in the previous two months; chart, below right), with prices of dairy (+1.0 percent) and meats, poultry, and fish also firming (+0.6 percent). The food away from home area (i.e., restaurant meals) rose 0.4 percent for the second consecutive month (not seasonally adjusted). The year-over-year advance of 3.8 percent is up 0.4 percentage point from the recent low in January.

CPI: Eggs



Source: Bureau of Labor Statistics via Haver Analytics

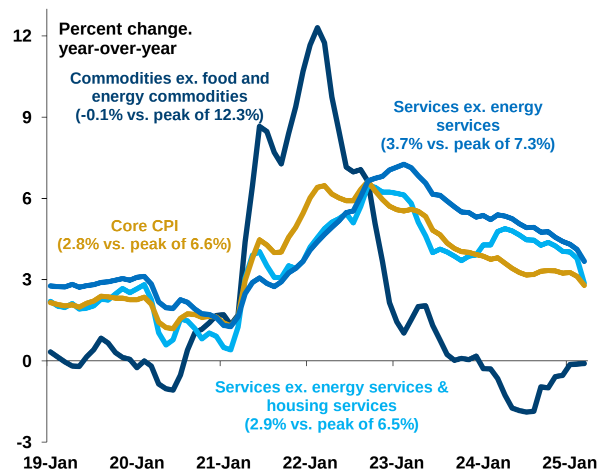
CPI: Food at Home



Source: Bureau of Labor Statistics via Haver Analytics

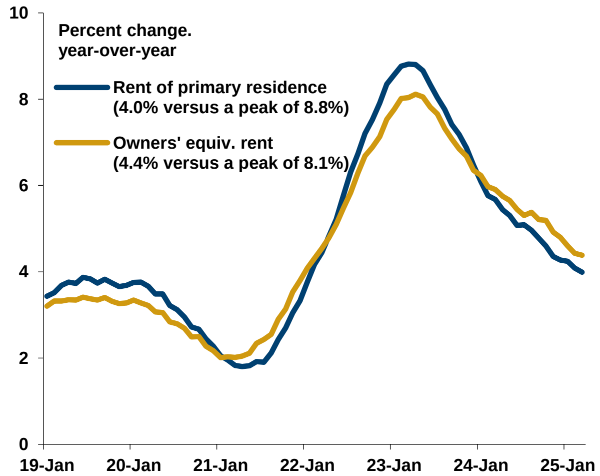
- The pickup of 0.1 percent in the core component (+0.057 percent with less rounding) resulted from a dip in core commodities (-0.1 percent; -0.1 percent year-over-year – matching the February reading) and a modest pickup in services excluding energy (+0.1 percent; +3.7 percent year-over-year, down from +4.1 percent in February). On the goods side, the prices of medical care commodities declined (-1.1 percent), as did those for used vehicles (-0.7 percent) – interrupting a series for six consecutive increases. Prices of new vehicles rose 0.1 percent, the third consecutive benign reading. In the core services area, rent of primary residence and owners' equivalent rent of residences rose 0.3 percent and 0.4 percent, respectively. The year-over-year changes of 4.0 percent (versus 4.1 percent in the prior month) and 4.4 percent (a touch below the February reading with less rounding) were little changed from the prior observations, but these areas have shown marked improvement in other recent months, supporting the view that primary housing could be an ongoing source of disinflation in 2025. Core services ex housing dipped 0.2 percent in March, the first decline in the measure since May of last year (-0.026 percent, rounding up to no change). Additionally, the year-over-year advance slowed sharply to 2.9 percent from 3.8 percent in February. In the latest month, airfares fell 5.3 percent, hotel fees dropped 4.3 percent, car and truck rental fees slipped 2.7 percent, and auto insurance costs eased 0.8 percent. On face, these weak readings raise the possibility that consumer demand for discretionary services (e.g., those related to vacations and travel) could be moderating.

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics

- The inflation outlook heading into the summer months is marred by significant uncertainty. On one hand, tariffs (if enacted) will boost significantly the costs of imported goods from China and to a lesser degree those from other major trading partners – and price pressure from those tariffs could extend beyond a one-time price level shift. At the same time, demand for discretionary goods and services appears to be ebbing, which could exert downward pressure in some areas, and fears regarding global growth have led to drops in the prices of commodities such as crude oil. With that said, short-term inflation expectations have stirred recently, and Fed officials remain concerned that longer-term inflation expectations could become unanchored. Given these worries, and core inflation still above 2 percent, we suspect that the FOMC will continue to exercise “patience” and refrain (at least for the next few months) from further rate cuts despite emergent risks to the growth outlook.