CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

April 12, 2023

US CPI (Mar): Gasoline and food reprieve, but core still too hot

by **Karyne Charbonneau** karyne.charbonneau@cibc.com (613 552-1341)

Consumer Price Index (monthly change, %)	Mar 2023	Feb 2023	Jan 2022	Dec 2022	Nov 2022	Oct 2022	Mar NSA YoY%
All items	0.1	0.4	0.5	0.1	0.2	0.5	5.0
Ex-food/energy	0.4	0.5	0.4	0.4	0.3	0.3	5.6
• Ex-food	0.1	0.4	0.5	0.1	0.1	0.5	4.4
• Ex-energy	0.3	0.4	0.4	0.4	0.3	0.4	6.0
Energy	-3.5	-0.6	2.0	-3.1	-1.4	1.7	-6.4
Services	0.3	0.5	0.6	0.7	0.4	0.4	7.3
Housing	0.3	0.5	0.8	0.7	0.5	0.6	7.8
Fuels & util.	-1.7	-1.4	1.6	0.9	-0.3	0.0	7.3
Food/beverages	0	0.3	0.5	0.5	0.6	0.7	8.3
• Food	0	0.4	0.5	0.4	0.6	0.7	8.5
Apparel	0.3	0.8	0.8	0.2	0.1	-0.2	3.3
Transportation	-0.5	0.2	0.4	-1.6	-0.7	0.7	-1.0
Medical care	-0.3	-0.5	-0.4	0.3	-0.4	-0.3	1.5
Recreation	0.1	0.9	0.5	0.2	0.5	0.8	4.8
Education, comm.	0.2	0.1	0.4	0.1	0.7	0.0	1.4
Other good, serv.	0.5	0.9	0.6	-0.1	0.7	0.5	6.1
Commodities	-0.3	0.2	0.4	-0.7	-0.2	0.6	1.6

Source: Haver Analytics.

- Lower energy prices and flat food prices eased overall price pressures in the US in March, but the pace of core inflation remains too hot to be comfortable. Core inflation decelerated one tick in March to 0.4% m/m, in line with consensus expectations. The annual rate for core inflation now stands at 5.6%. Once again, shelter was the largest contributor to the monthly increase, though airline fares, household furnishings and operations and new vehicle prices also rose. In what is excellent news for consumers, food prices held steady in March after months of strong gains, with food at home even declining 0.3% on the month. Combined with energy prices which fell meaningfully, that left headline inflation with a small 0.1% monthly advance, or 5.0% y/y, a tick below consensus expectations. However, the Fed's preferred gauge of underlying price pressures tied to the output gap, core services excluding housing, while decelerating slightly from February, remains elevated at 0.4% m/m. That maintains the case for a follow up 25 bp rate hike by the Fed in May provided banking system issues look sufficiently stable.
- Shelter prices decelerated as both rent of primary residence and owners' equivalent rent posted smaller monthly gains. A continued surge in hotel rates provided some offset. There will be softness in the cards for rent measures by mid-year, as new rental rates have eased in line with the cooling in the housing market, and the CPI index picks that impact up with a lag. The increase in hotel prices, which was accompanied by strong airfares once again this month,

suggests that demand for travel, in time for spring break, remained very solid. This type of discretionary spending supports the case for another rate hike.

- Many other services categories remain uncomfortably hot, with areas such as pet services, streaming services, financial services, motor vehicles insurance and motor vehicle maintenance and repairs all posting strong gains. Meanwhile, core goods prices accelerated slightly on the month, but remain overall more subdued. That is mostly due to another large decline in used car prices, as most other categories, such as apparel and new cars continue to increase.
- Gasoline prices fell 4.6% on the month, as expected, though energy prices fell across the board. Meanwhile, in what will certainly be a welcomed reprieve for consumers, food prices finally stopped their climb. Food at home even fell for the first time since September 2020, though that was offset by another large increase in restaurant prices. Nevertheless, plummeting grocery store prices for staples such as eggs (-10.9% m/m), partly offsetting big increases earlier in the year, will help consumers.

Implications & actions

Re: Economic forecast — Despite a weaker than anticipated headline number, continued pressure on core inflation will keep the Fed on its toes. The pace seen in its preferred gauge of underlying pressures, core services excluding housing, remains too hot and maintains the case for a follow up 25 bp rate hike in May. Nevertheless, the Fed will need to balance that with the banking system issues, but we expect them to go ahead with one more 25bp rate hike if things are stable enough on that front. With the impact of past rate hikes still materializing, and slower shelter price increases imminent, core inflation could still fall below 3% in the latter part of the year.

Re: Markets — The market reacted strongly to weaker than expected headline inflation, with yields falling after the release and the USD depreciating.