



# Economic Flash!

May 10, 2018

Katherine Judge (416) 956-6527

## US CPI: Core Inflation Underwhelms in April

Summary of the April consumer price report from the US Labor Department

	Apr	Mar	Feb	Jan	Dec	Nov	AprNSA YOY%
All items	0.2%	-0.1%	0.2%	0.5%	0.2%	0.3%	2.5%
ex-food/energy	0.1%	0.2%	0.2%	0.3%	0.2%	0.1%	2.1%
Energy	1.4%	-2.8%	0.1%	3.0%	-0.2%	3.2%	7.9%
Services	0.1%	0.2%	0.3%	0.3%	0.3%	0.2%	2.8%
ex-energy	0.2%	0.3%	0.2%	0.3%	0.3%	0.2%	2.9%
Housing	0.3%	0.3%	0.3%	0.2%	0.3%	0.2%	3.0%
Fuels & util.	-0.2%	-0.2%	1.0%	-0.2%	0.3%	0.6%	2.2%
Food/beverages	0.3%	0.1%	0.0%	0.2%	0.2%	0.0%	1.4%
Food	0.3%	0.1%	0.0%	0.2%	0.2%	0.0%	1.4%
Apparel	0.3%	-0.6%	1.5%	1.7%	-0.3%	-0.9%	0.8%
Transportation	0.2%	-1.2%	0.0%	1.8%	0.2%	1.5%	4.1%
Medical care	0.1%	0.4%	-0.1%	0.4%	0.3%	0.0%	2.2%
Recreation	-0.4%	0.0%	0.0%	0.0%	0.1%	-0.1%	0.3%
Education, comm.	0.0%	-0.2%	-0.2%	0.1%	0.1%	0.2%	0.1%
Pers. computers	-0.2%	0.1%	-1.2%	0.4%	-0.9%	-0.5%	-3.4%
Other good, serv.	0.8%	0.2%	0.2%	0.4%	-0.2%	0.1%	2.4%
Tobacco	1.3%	-0.2%	0.1%	0.3%	-0.4%	0.2%	3.0%
Commodities	0.4%	-0.6%	-0.1%	1.0%	0.1%	0.5%	1.8%
ex-food/bev.	0.4%	-1.0%	-0.1%	1.4%	0.0%	0.9%	1.9%
ex-food/energy	-0.1%	-0.1%	0.1%	0.4%	0.2%	-0.1%	-0.4%

Source: Bloomberg

- After a relatively strong start to the year, core price pressures disappointed in April. The advance in headline CPI was largely due to strength in gasoline and food prices, meaning there was little evidence of mounting inflationary pressures during the month. That being said, with inflation hovering around the Fed's target, today's readings don't change the calculus for policymakers.
- Headline consumer prices advanced 0.2% in April, leaving the annual rate a tick higher at 2.5%. Much of that strength was due to strong energy (1.4% m/m) and food (0.3% m/m) prices, with the latter posting its strongest monthly gain in over a year. However, food price growth still remains subdued on a yearly basis.

- After stripping out food and energy, core CPI advanced by a meagre 0.1% on the month, leaving the yearly rate unchanged at 2.1%. A fall in auto prices was the main contributor to the disappointment, extending weakness from the start of the year following a period of vehicle replacements after hurricanes.
- The remaining components posted less significant moves, with auto insurance premiums falling on a monthly basis as hurricane-induced strength evaporated. Yearly medical care service costs ticked up after decelerating last year, but medical care commodities lost ground on the month and the annual rate for each category remains well below levels observed in 2016. Higher medical care services costs could show up more clearly in PCE inflation given its higher weight in that series.

## Implications & Actions

**Re: Economic Forecast** — While headline inflation gained ground, there were a few weak spots in today's report. Those, however, should prove transitory given the tightening labor market. The below-consensus reading on core inflation confirms that the Fed has no reason to accelerate rate hikes. But, as long as growth indicators hold up, the Fed should be able to raise rates in June.

**Re: Markets** — Yields are relatively unchanged given the path for the Fed's rate hikes remaining unchanged, while the USD slid immediately after the release.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2018 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.