ECONOMIC UPDATE

REGIONS

April 14, 2016

March Consumer Price Index: Inflation Slows In March

- The total CPI rose by 0.1 percent (up .090 percent unrounded) in March; the core CPI was up 0.1 percent (0.069 percent unrounded).
- On a year-over-year basis, the total CPI was up 0.9 percent and the core CPI was up 2.2 percent in March.

The total CPI and the core CPI both rose by 0.1 percent in March, though not without some help from upward rounding. On an over-the-year basis, the total CPI was up 0.9 percent while the core CPI was up 2.2 percent. The significant spikes in medical costs and apparel prices seen in January and February were, as we anticipated, absent from the March data. Still, the increase in the total CPI came in below the consensus forecast of a 0.2 percent increase, which was also our call. This is mainly a function of the changes in rents and prices for food consumed at home coming in below our expectations.

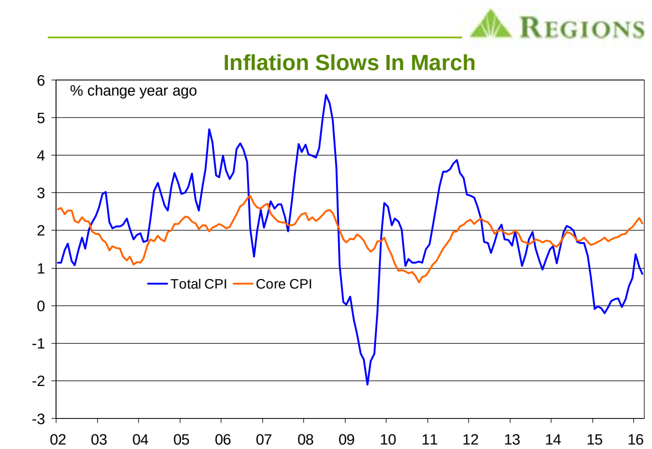
The overall index of food prices fell 0.2 percent in March, reflecting a 0.5 percent drop in prices for food consumed at home and a 0.2 increase in prices for food consumed away from home. On a year-over-year basis, prices for food consumed at home were down 0.5 percent and prices for food consumed away from home were up 2.7 percent. Retail gasoline prices rose 10.2 percent in March before seasonal adjustment; while retail pump prices typically rise during the month of March this year's increase was slightly larger than normal, which left retail gasoline prices up 2.2 percent on a seasonally adjusted basis. Still, retail gasoline prices were down 21 percent from their year-ago level.

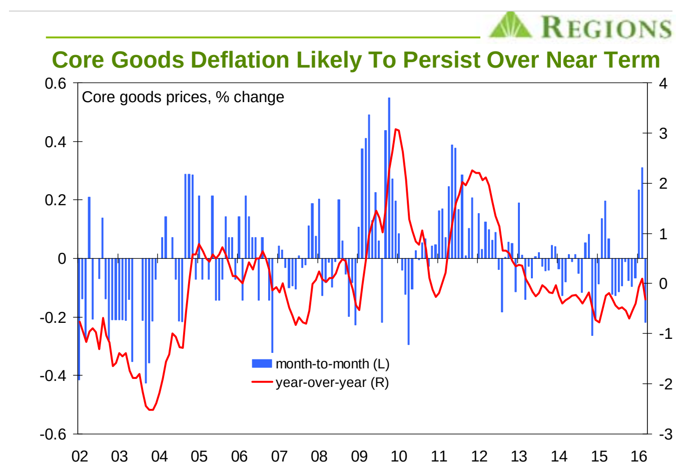
One can sift through the details of the CPI data and see broad based declines in prices for consumer goods. To that point, core goods prices fell 0.2 percent in March after two consecutive monthly increases, and on a year-over-year basis core goods prices were down 0.3 percent. This is notable since February saw core goods prices up year-over-year for the first time since March 2013. What has been a weaker U.S. dollar over the past few months will ultimately provide support for core goods prices, though this may take the form of smaller declines as opposed to more robust increases. Either way, we have repeatedly pointed out this is a detail typically missed by those bemoaning "weak" reports on retail sales – retail sales are not adjusted for price changes and what have been persistent declines in prices for a broad array of goods have been distorting the signals on consumer spending. As for core services prices, they were up 0.2 percent in March, below the underlying trend, but were nonetheless up 3.0 percent year-on-year.

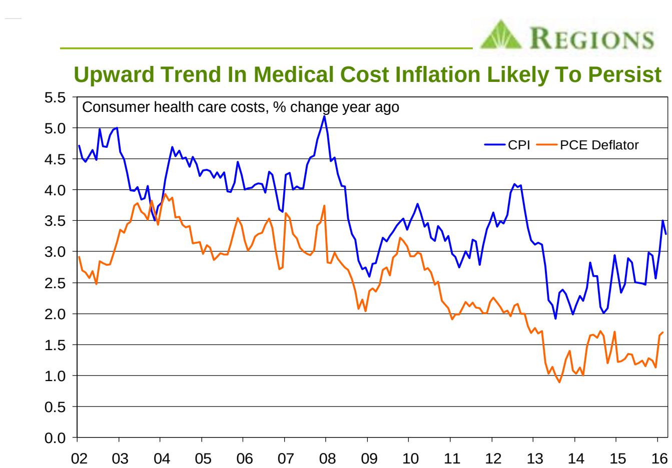
Core services inflation has been persistently accelerating over the past several months, though rents have been a key driver of that. Owners' equivalent rents were up 0.2 percent in March with market rents up 0.3 percent; on an-over-the-year basis these translate into increases of 3.1 percent and 3.7 percent, respectively. Still, over-the-year increases in both measures of rent have been fairly stable over the past several months, and growth in market rents is likely topping out given what in many markets will be sizeable increases in new supply over the course of this year. With rents accounting for over 40 percent of the core CPI, any slowdown in rent growth will be reflected in core CPI inflation, though core inflation excluding shelter came in at 1.5 percent in March, right around where it has settled over recent months.

After sharp spikes in January and February that we attributed to seasonal adjustment noise more than anything, apparel prices fell 1.1 percent in March, leaving them down 0.6 percent year-on-year. Medical costs were also far more restrained in March than over the prior two months, with an increase of just 0.1 percent, which translated into a 3.3 percent increase on an over-the-year basis. Still, we expect the upward trend in medical cost inflation to persist over coming months – keep in mind that as measured in the CPI medical costs capture out of pocket costs paid by consumers, which is a more meaningful measure than the PCE price deflator, which measures changes in revenue collected by service providers.

In our last two CPI write-ups we argued the acceleration in inflation was somewhat overstated. Still, we expect a more persistent acceleration in inflation over the second half of 2016, leaving inflation much closer to the FOMC's 2.0 percent target rate.







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