

Consumer Price Index March 2024

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Stalling inflation progress could delay easing cycle

- ▶ Headline Consumer Price Index (CPI) rose by 0.4% month over month (m/m) in March, surpassing consensus expectations for a third straight month. Energy prices rose 1.1%, reflecting a 1.7% increase in gasoline prices, and food prices saw a mild rebound of 0.1%. Partly due to unfavorable base effects, headline CPI inflation climbed 0.3 percentage points (ppt) higher to 3.5% year over year (y/y) – the fastest rate since September 2023.
- ▶ Core CPI rose 0.4% m/m for a third consecutive month, pointing to some persistence in core inflationary pressures. Core goods prices resumed their decline, falling 0.2%, while core services prices increased at a 0.5% clip, with shelter costs, auto insurance and medical services driving the increase. Importantly, the Fed's favored "supercore" CPI measures (core services excluding shelter costs) rose 0.65% following a 0.47% gain, a pace that remains too hot for comfort.
- ▶ Core CPI inflation held steady at 3.8% y/y – its lowest level since April 2021. The lack of downward momentum in core inflation will be met with some discomfort within the Federal Open Market Committee (FOMC), especially as some Fed officials are growing increasingly uneasy about cutting rates amid inflation stickiness. Still, many will wait to observe the read on their favored inflation gauge – personal consumption expenditures (PCE) inflation – later this month before adjusting their views.
- ▶ The short-term inflation dynamics indicate a leveling off of disinflation, but we anticipate renewed downward momentum in the coming months. On a three-month annualized basis, headline CPI picked up 0.6ppt to 4.6% while core CPI picked up 0.3ppt to 4.5%. On a six-month annualized basis, both headline and core CPI were unchanged at 3.2% and 3.9%, respectively.
- ▶ The disappointing March CPI report won't provide much reassurance to Fed officials who are still looking for greater confidence that PCE inflation is moving sustainably towards the 2% target. While we continue to expect the onset of the Fed easing cycle in June and believe the Fed is likely to proceed with three rate cuts this year, recent data will tilt a small majority of policymakers toward expecting fewer rate cuts in 2024 and a later onset of the easing cycle.
- ▶ Overall, we still believe a broad disinflationary trend remains in place and five key elements should bring more disinflation throughout 2024: cooler consumer demand growth, declining rent inflation, narrower profit margins, moderating wage growth and stronger productivity growth.



Looking into the details

Energy prices rose for a second consecutive month, up 1.1% m/m in March following a 2.3% gain in February. The increase was driven by a 1.7% rise in gasoline prices and a 0.9% increase in electricity prices.

Food prices saw a mild 0.1% increase on the month after being unchanged in February. Restaurant prices picked up modestly and rose 0.3% on a non-seasonally adjusted basis after posting their weakest increase since March 2021. And grocery store prices were unchanged for a second consecutive month on falling prices for dairy and cereals. Grocery store price inflation has moderated markedly from a peak of 13.5% y/y in August 2022, to just 1.2% y/y in March. Still, cost fatigue is perceptible as price levels remain significantly higher than pre-pandemic.

Core goods prices resumed their downward trend and posted a 0.2% decline in March. Used car prices fell 1.1% and new car prices edged down 0.2%, the third consecutive monthly decline. Used car prices are now 2.2% lower than last year and have been declining on a y/y basis for 17 months. Apparel prices saw another robust increase, up 0.7% following a 0.6% increase in February, and are now slightly higher than they were a year ago.

Core services prices rose 0.5% m/m, in line with their February gain. The Fed's favorite supercore CPI gauge (core services prices excluding shelter costs) rose 0.65%, after showing some moderation in February with a 0.47% m/m advance. On an annual basis, supercore CPI inflation rose 0.5ppt to 4.8% y/y, a pace still too hot for comfort.

Looking into the services details, **transportation costs** rose 1.5% m/m as a 2.6% jump in motor vehicle insurance prices was only partially offset by a 0.4% decline in airline fares. Auto insurance prices have risen for 29 consecutive months, up 22% y/y, as insurance companies factor the higher vehicle prices and higher costs of repair.

Medical care services rebounded 0.6% m/m in March after registering their weakest monthly print since August 2023. The gain was driven by a 1% increase in hospital services. Health insurance prices rose 1.2% m/m on a non-seasonally adjusted basis – resuming the string of 1% increases over the past six months.

Shelter costs maintained a 0.4% pace in March, as rent prices rose 0.4% m/m and owners' equivalent rent posted a 0.4% advance. Hotel prices were unchanged last month following a mild 0.1% gain in February. Overall, shelter inflation held steady at 5.7% in March, a rate well below its 8.2% peak of March 2023.

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