



# Economics Group

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## April CPI Inflation Rebound Keeps a June Rate Hike in Place

*Confirming March's unexpected decline was "transitory," headline and core CPI inflation rebounded in April. A return closer to trend performance at the start of Q2 keeps the Fed on track for a June rate hike.*

### Food and Energy Prices Rise

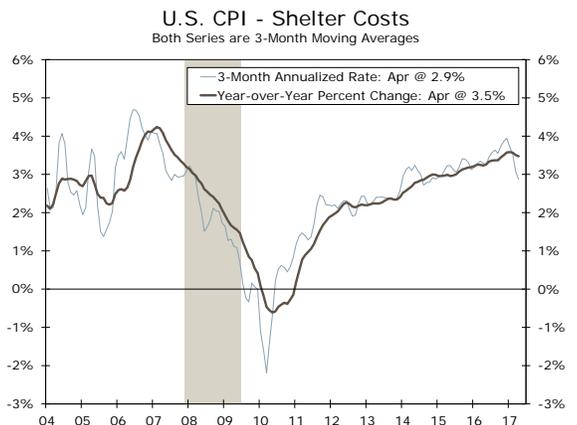
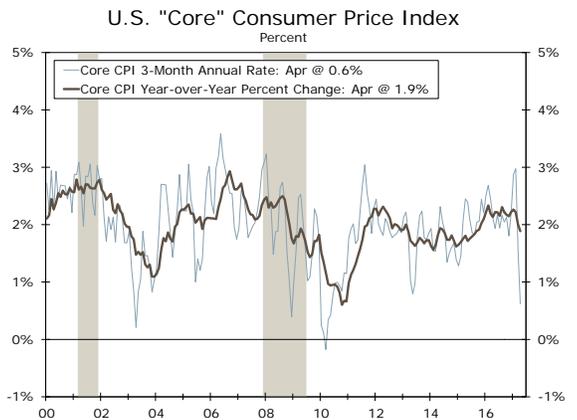
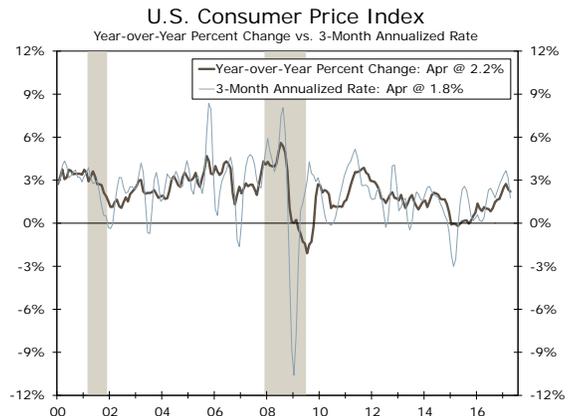
Extending the theme we have witnessed this week with gains in both headline and core measures of import and producer prices, consumer inflation, as measured by the Consumer Price Index (CPI), also revealed a rebounding performance during the month of April. Admittedly a lower than expected rebound, headline CPI increased 0.2 percent in April from the 0.3 percent decline in March. Energy prices, which tend to be a significant factor in the monthly headline performance, rose 1.1 percent on the month, as all three major components—gasoline, natural gas and electricity—increased. Crude oil prices have fallen substantially in recent weeks and will likely influence next month's headline CPI performance.

Consumer food prices extended its recent rising streak to four months, but underlying details were on the soft side. The index for food at home prices rose 0.2 percent, but was largely driven by an outsized gain in fruits and vegetables (2.2 percent). Four of the five major grocery store food components fell on the month. Food prices away from home edged up 0.2 percent in April and are up a modest 2.3 percent pace over the past year.

Excluding food and energy, consumer prices increased a modest 0.1 percent in April following the unusual March decline of -0.1 percent. Shelter costs, which were a contributing factor to March's core CPI decline, returned to trend, up 0.3 percent. An outsized increase in tobacco, 4.2 percent, also underpinned the core. Outside of those two components, however, the core inflation environment remains soft. Medical care, communication (including wireless services), new & used cars and trucks, and apparel declined for the second month. The three-month annualized rate of core CPI has fallen from a recent high of 3.0 percent to a low of 0.6 percent—pointing towards further moderation in the year-over-year rate in the coming months (middle chart).

### Economic Backdrop Still Supports June Rate Hike

The key question heading into today's CPI report was whether the unexpected decline in March consumer inflation was "transitory" as the Fed and consensus believed, or the start of a new concerning trend. While April's performance did rebound, the soft underlying performance is unlikely to quench concerns several Fed officials have expressed over the likelihood of reaching the Fed's 2.0 percent target. That said, the labor market remains strong and communication from most Fed officials remains resolute that they remain focused on their tightening monetary policy path. While the April CPI performance was weaker than we had projected, our overall economic growth outlook remains in place and we do not think the recent soft inflation prints will deter Fed officials from raising rates at the June meeting.



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