



Economics Group

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Food and Shelter Prices Boost March Consumer Inflation

Sparked in large part by solid gains in food and shelter costs, headline CPI increased a stronger-than-expected 0.2 percent in March. Elsewhere, price increases were also quite firm.

Food Prices Post Another Solid Gain

Following a soft start to the year, with modest monthly gains of 0.1 percent in January and February, headline consumer inflation, as measured by the Consumer Price Index, picked up in March. On the month, the headline CPI increased 0.2 percent, consistent with the stronger-than-expected gains seen in last week's March import price and producer price reports.

A dominant theme so far this year has been the robust performance from food prices. Matching February's rise, the food index increased 0.4 percent in March with solid gains in both food at home and food away from home. Historic drought conditions in California have had a disruptive impact on fruits, vegetables and dairy product prices in recent months. Indeed, the index for fresh fruits jumped 3.1 percent and dairy-related products rose 1.0 percent. Record-high beef prices are also drawing a lot of attention. For the second straight month, the index for meats, poultry, fish and eggs increased 1.2 percent and stands 5.1 percent over the past year.

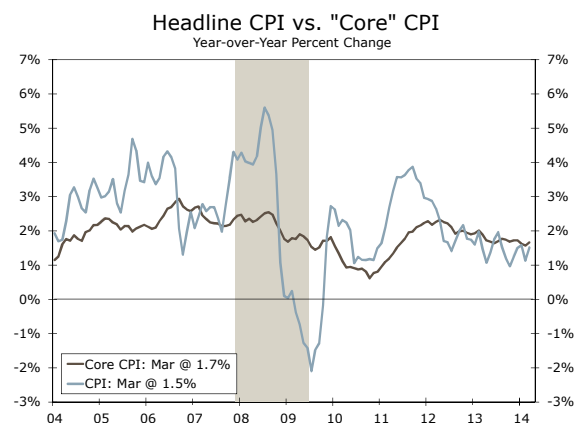
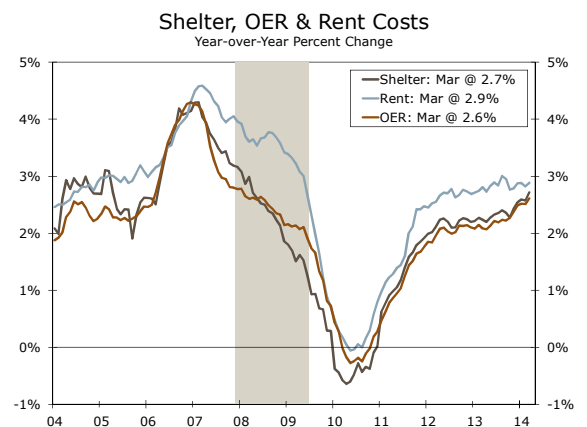
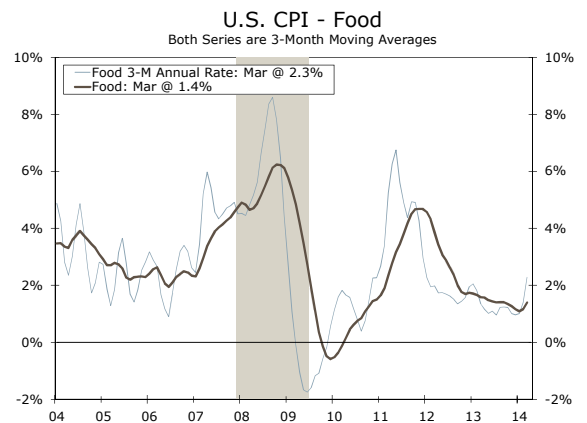
According to the USDA, little price relief is in sight. Based on the outlook for commodity prices, animal inventories and ongoing export trends, the USDA expects food price inflation will return to a range closer to its historical average. Following a 1.4 percent rise in 2013, the USDA projects the CPI food index will increase 2.5 to 3.5 percent in 2014 with beef, veal, poultry and eggs providing the strongest gains.

Shelter Costs Continue to Support Firm Core Inflation

Outside of food and energy, inflation also came in a touch stronger than expected with core CPI rising 0.2 percent. Accounting for nearly two-thirds of the core's gain was the 0.3 percent rise in shelter costs with matching increases from rent and owners' equivalent rent (OER). With demand improving, the shelter index is up 2.7 percent over the past year, marking the largest year-over-year increase since March-2008. Outside of housing, increases were also seen in apparel, medical care, airline fares and used cars & trucks.

Headline Inflation Accelerates at Quarter's End; More to Come?

Our updated economic outlook paints a picture of strengthening demand over the coming quarters as the pace of hiring and wage gains are expected to pick up. That said, the anticipated pace of improvement in the labor market is likely to be limited and will therefore provide measured upward pressure on consumer inflation. Following the 1.4 percent year-over-year quarterly average set in Q1, we expect headline consumer inflation will pick up to a 1.9 percent year-over-year pace in Q4. We also foresee a similar rise in core CPI to a 1.9 percent pace by year's end. Anything stronger would certainly cause a stir at the Fed.



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