



## Economics Group

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# Consumer Price Momentum Picks Up in April

**Boosted, in part, by furthering gains in food and shelter costs, headline CPI increased as expected in April, up a solid 0.3 percent. Core prices were also firm on the month, suggesting the pick-up in inflation is broadening.**

### Momentum Accelerates At the Start of Q2

Exhibiting further upward momentum at the start of the second quarter, the Consumer Price Index (CPI) increased a solid 0.3 percent in April. Easy, year-ago base comparisons resulted in the year-over-year rate of headline CPI jumping to 2.0 percent from 1.5 percent in March. As expected, another substantial rise in food costs contributed significantly to the headline's gain as earlier drought conditions in the Western part of the United States continue to be felt. The food index increased 0.4 percent for the third straight month, a feat last seen in mid-2011. Prices for food at home rose 0.5 percent last month, driven higher by continued outsized gains from meats, poultry, eggs, dairy products and fruits and vegetables. Food away from home increased 0.3 percent in April, as an improving consumer picture has allowed restaurants to gradually raise prices.

On the energy front, prices snapped a back-to-back downward streak, as the energy component rose 0.3 percent in April with gas prices increasing 2.3 percent. In contrast, the fuel oil and electricity indices fell on the month.

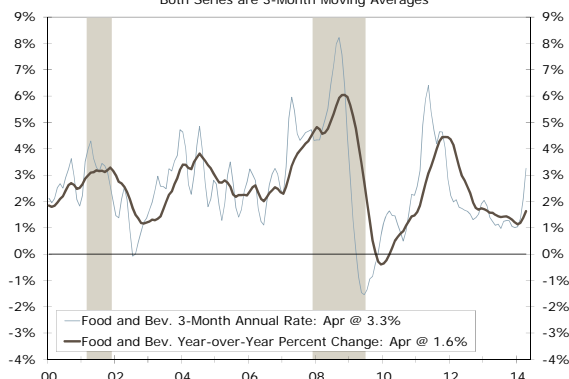
### Core Prices Firming

Excluding food and energy, price changes were also quite firm last month. Core prices rose 0.2 percent in April, lifting the year-over-year rate to 1.8 percent from 1.7 percent in March. Shelter costs continue to provide the largest support to core consumer prices, with owners' equivalent rent up 0.2 percent, lodging away from home up 0.4 percent and rent up 0.3 percent. Other notable increases in April included new and used cars & trucks, medical care and airfares. The three-month annualized rate of core CPI is tracking above its year-over-year rate and points to further gains in the months ahead (bottom chart).

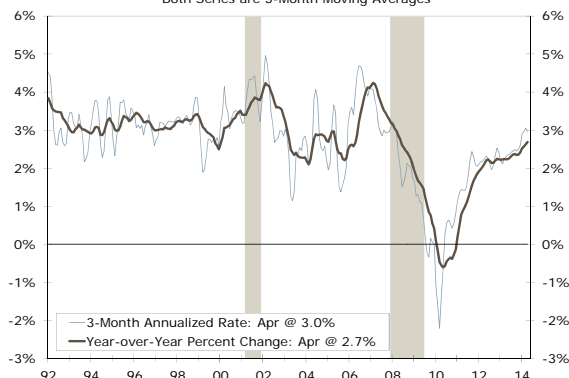
### Firming Inflation Outlook Remains in Place

Today's report supports the case that consumer inflation has picked up the pace during the first four months of 2014. The key question is whether we will see further strengthening in the year ahead or will the headline index stagnate and continue to trend below target as it has for the past two years. On an outlook for strengthening domestic demand and reduced labor market slack, which should result in faster wage growth than we are currently experiencing, we project headline CPI inflation will be able to hold at around a 2 percent year-over-year pace in the coming quarters and eventually trend higher in 2015. Most Fed officials are unlikely to be spooked by this week's strong inflation performance given their current assessment of labor market slack/wage pressures and inflation expectations, which remain well anchored. However, a few more months of strong inflation gains could change their tune and throw a wrench into their policy normalization plans.

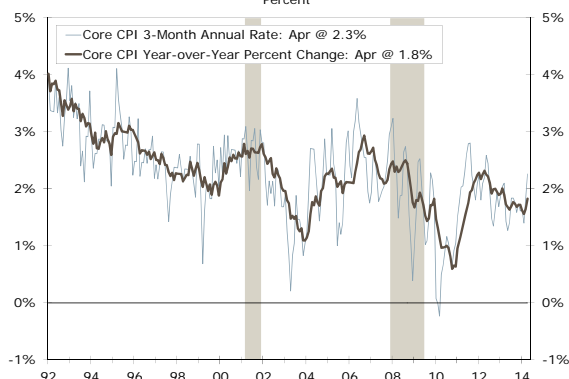
U.S. CPI - Food and Beverages  
 Both Series are 3-Month Moving Averages



U.S. CPI - Shelter Costs  
 Both Series are 3-Month Moving Averages



U.S. "Core" Consumer Price Index  
 Percent



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