PANTHEON MACROECONOMICS

Datanote: US CPI, April

In one line: A broad-based slowdown, pointing to a 0.24% core PCE print.

- The April CPI rose by 0.3%, below the consensus, 0.4%.
- The core increased by 0.3%, in line with the consensus.

The smallest increase in the core CPI since December will reassure the Fed that monetary policy is tight enough to bring inflation eventually back to the 2% target, though the run rate still needs to slow further to trigger rate cuts, unless payrolls tank first. The slowdown in April was encouragingly broad-based. Almost half of the 0.42% increase in services prices ex-rents was due to a 1.8% jump in auto insurance prices, while our "core-core services" index, which strips out the volatile insurance, vehicle repair, hospital services, airline fares and lodging components, rose by 0.32%. That's still too fast for the

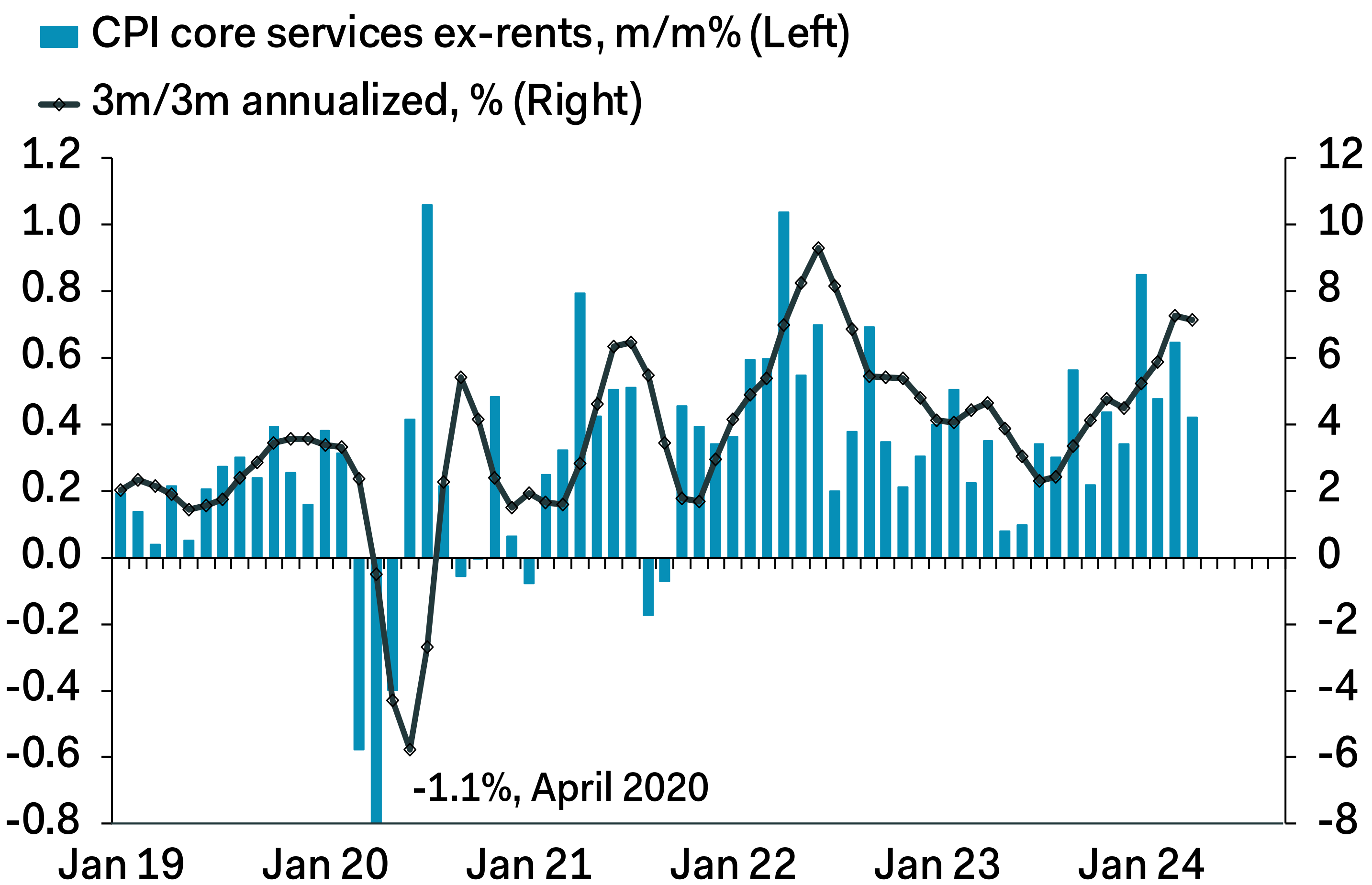
Fed to tolerate indefinitely, but marks a meaningful downshift from the 0.41% average pace in Q1. A combination of slowing wage growth and intensifying margin pressure is helping to squeeze underlying services inflation.

Meanwhile, the rate of increase in primary rent moderated to 0.35%—the least since August 2021—from 0.41% in March, showing that the slowdown in new rents inflation that began over a year ago is weighing more powerfully on the overall CPI. And while owners' equivalent rent, which is derived from the primary rent data, re-weighted to account for differences in the rented and owner-occupied stock, increased by 0.42%, the 0.07pp gap probably largely reflects the increase in the weight in the sample of single-family detached homes—SFD—which attract higher rents than multi-family units. Remember, the reported month-to-month change in both OER and primary rents is the sixth root of the change in rents in the same panel across the past six months, so the weight change that occurred in January is still boosting the OER. But this boost will drop out of the numbers in July.

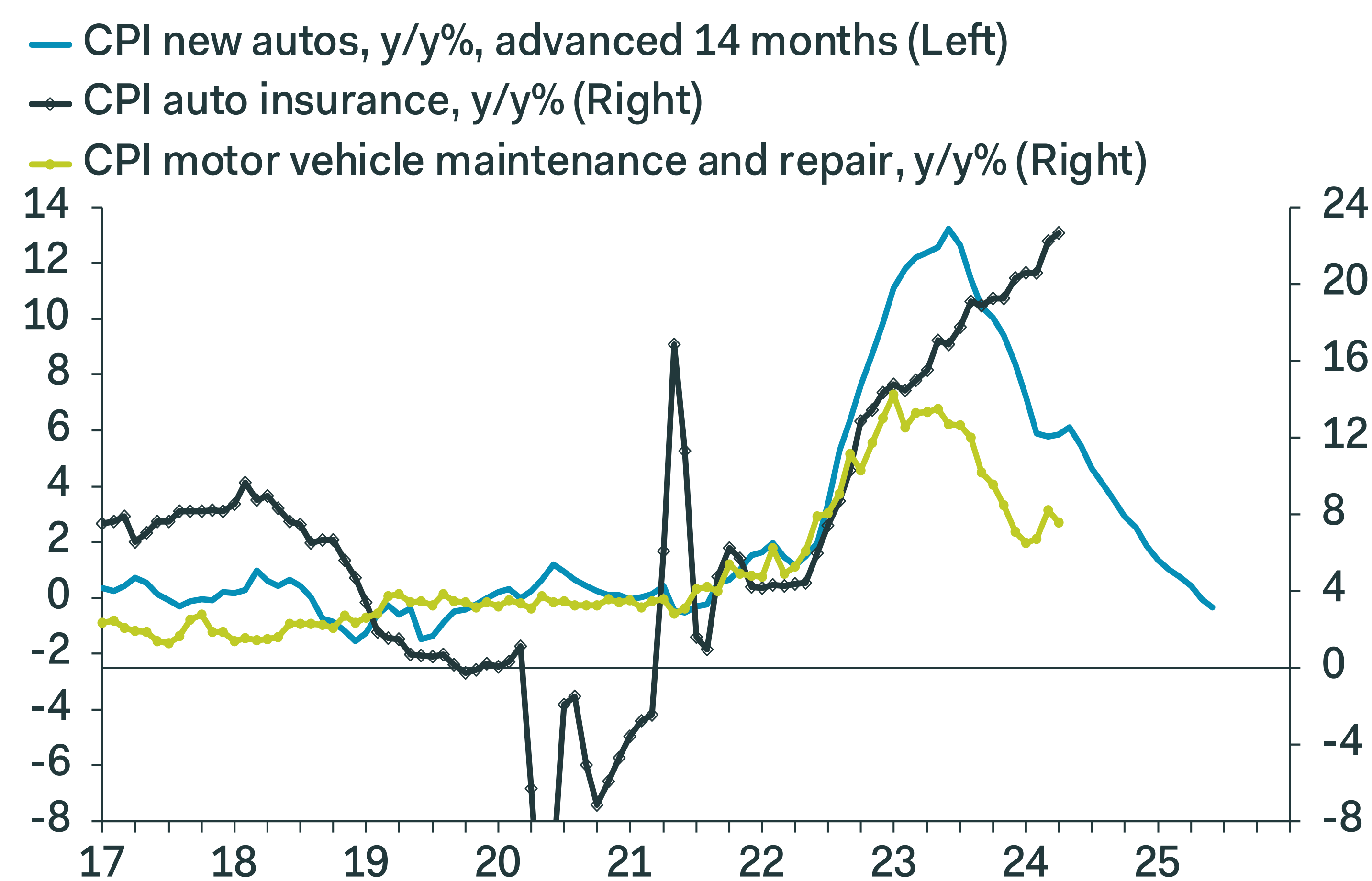
Elsewhere, the core goods CPI fell by 0.1%, as declines in used and new motor vehicle prices more than offset a jump in clothing prices. The food away from home CPI rose by a relatively restrained 0.35%, consistent with a negligible impact of the minimum wage hike for fast food workers in California on the national data.

We infer from today's CPI data and yesterday's PPI numbers that the core PCE rose by 0.24% in April, though exact precision isn't possible, given that some PCE components are derived from other data yet to be published, and the BEA uses judgement when seasonally adjusting some series.

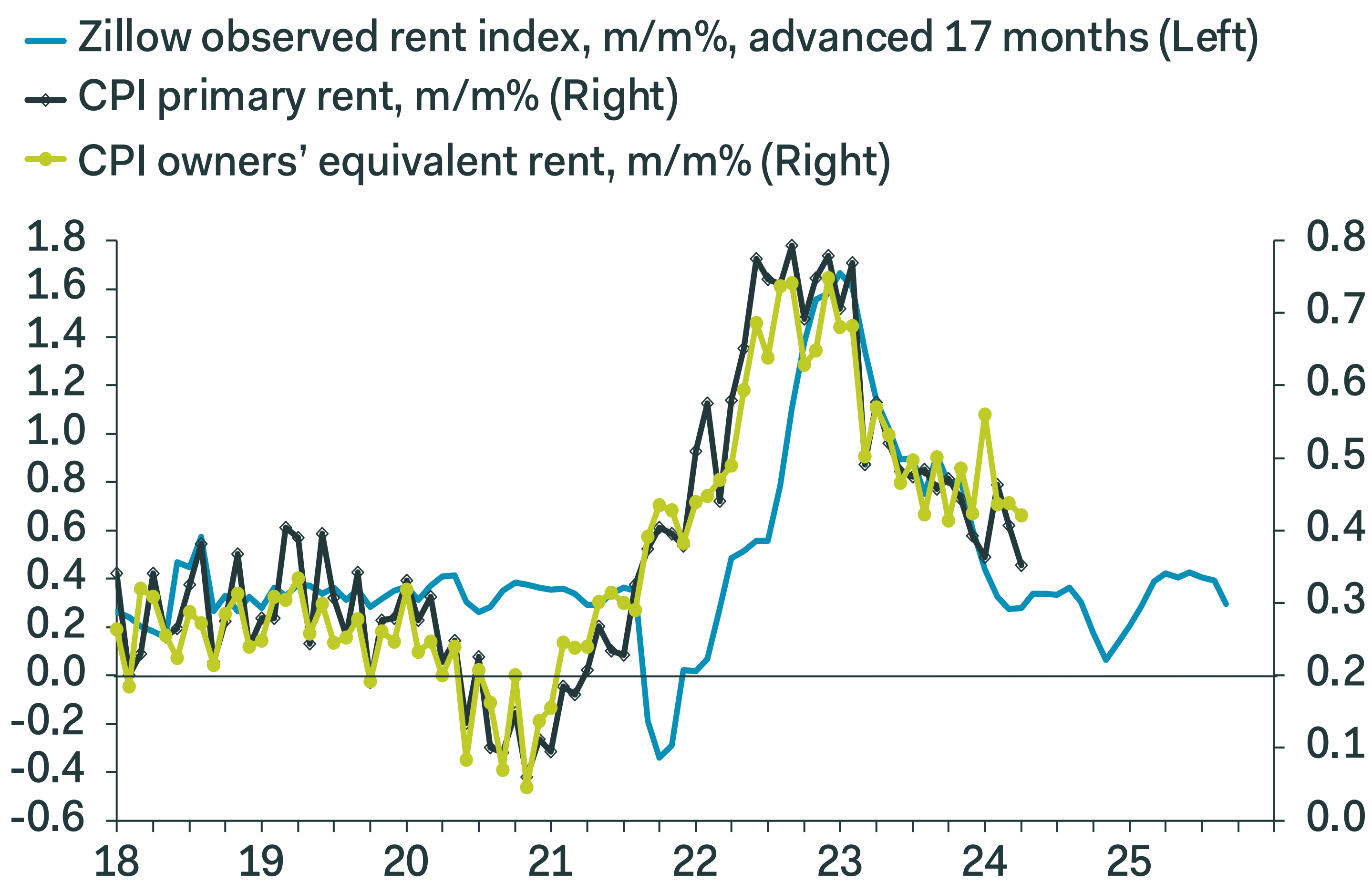
Looking ahead, the case for expecting a further slowdown in core CPI inflation remains compelling. Supply chains have normalized, wage growth is weakening, and corporate margins are flat but still hugely elevated, indicating clear scope to fall ahead. At the same time, global food and energy prices remain unthreatening, and rent inflation for new tenants remains subdued. Furthermore, falling vehicle prices suggest that auto insurance inflation will slow sharply soon from its recent rapid pace. The foundations, therefore, are in place for a further deceleration in the core CPI this summer, enabling the Fed to start easing in September. But if payrolls roll over as fast as the NFIB survey implies, don't rule out July.

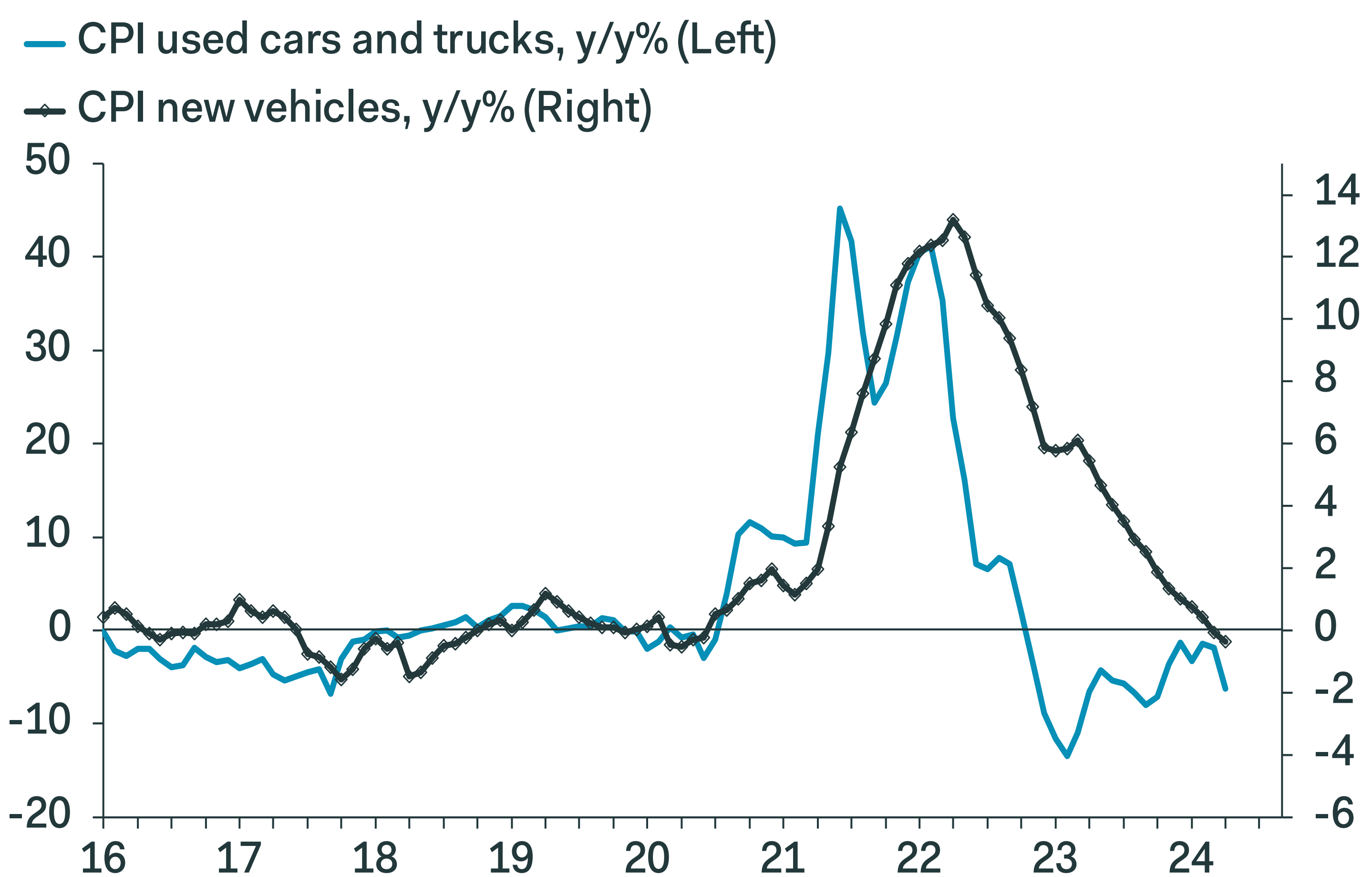


CPI core services ex-rents, m/m% (Left)
3m/3m annualized, % (Right)
1.2
1.0
0.8
0.6
0.4
0.2
0.0
-0.2
-0.4
-0.6
-0.8
12
10
8
6
4
2
0
-2
-4
-6
-8
-1.1%, April 2020
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24



CPI new autos, y/y%, advanced 14 months (Left)
CPI auto insurance, y/y% (Right)
CPI motor vehicle maintenance and repair, y/y% (Right)
14
12
10
8
6
4
2
0
-2
-4
-6
-8
24
20
16
12
8
4
0
-4
-8
17
18
19
20
21
22
23
24
25


Zillow observed rent index, m/m%, advanced 17 months (Left)
CPI primary rent, m/m% (Right)
CPI owners' equivalent rent, m/m% (Right)
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
-0.2
-0.4
-0.6
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0
18
19
20
21
22
23
24
25


CPI used cars and trucks, y/y% (Left)
CPI new vehicles, y/y% (Right)
50
40
30
20
10
0
-10
-20
14
12
10
8
6
4
2
0
-2
-4
-6
16
17
18
19
20
21
22
23
24