

ECONOMIC NEWS

United States: Headline Inflation Falls to 5%

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HIGHLIGHTS

- ▶ The US Consumer Price Index (CPI) rose 0.1% in March following increases of 0.4% in February and 0.5% in January.
- ▶ Energy prices were down 3.5%, with a 4.6% drop in gasoline prices. Food prices were flat, marking the first month without significant price gains since July 2020.
- ▶ Core CPI, which strips out food and energy, climbed 0.4% in March following a 0.5% increase in February.
- ▶ The 12-month change in the all items index continued to decline, falling from 6.0% to 5.0%. But core inflation edged up from 5.5% to 5.6%.

COMMENTS

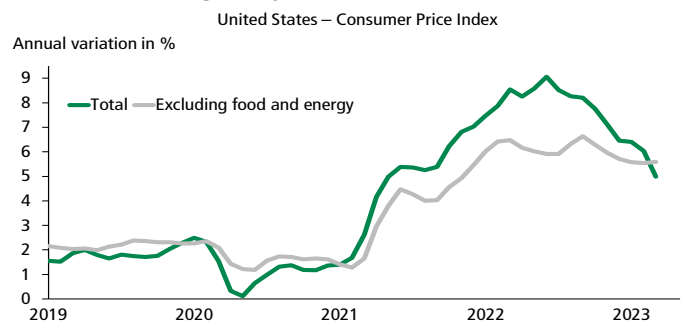
Inflation continues to fall. It now stands at 5.0%, down from its peak of 9.1% last June. That's obviously still high and much too elevated for the Fed's taste, but considerable progress has been made. The decline is largely due to energy prices. Gasoline prices were down 17.4% year-over-year. Due to base-year effects, annual price gains should continue to slow sharply in the coming months, bringing headline inflation down further.

Food prices also contributed to March's slowdown in total CPI. Grocery prices fell 0.3% in March, the first significant drop since September 2020. But Americans are still paying 23.6% more for groceries than they were before the pandemic.

However, the worst piece of news in today's report was that core inflation remains stubbornly high. The 12-month change in the index for all items less food and energy rose for the first time since September. Goods prices were up 0.2% in March, the biggest increase since August. The cost of over-the-counter drugs jumped 1.5%. Fortunately, monthly price growth for services excluding energy is slowing, coming in at "just" 0.4% in March,

GRAPH

Headline Inflation Has Come Down Dramatically, but Core Inflation Is Proving Sticky



Sources: Bureau of Labor Statistics and Desjardins Economic Studies

the slowest pace since July 2022. Rents aren't rising as fast as in previous months, and the cost of medical services was down for the third straight month. But airfares continue to soar, rising 4.0% in March.

IMPLICATIONS

Headline inflation continues to slow, and base-year effects should keep bringing down the 12-month change in CPI over the coming months. Core inflation is proving sticky as the economy continues to chug along and the labour market remains strong. Given all that and while being aware of financial conditions and the state of the banking sector, the Federal Reserve should hike rates again in early May.