

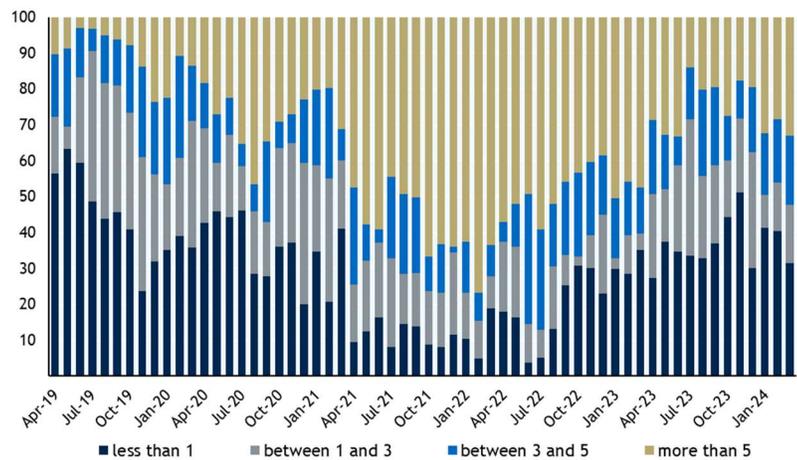
April 10, 2024

U.S. inflation inched higher with strong details

- Year-over-year headline inflation edged up again in March to 3.5% from 3.2% in February, mostly driven by higher gasoline prices. On a monthly basis, both headline and core (ex-food and energy) CPI grew 0.4% from last month, the latter was above consensus expectation for a 0.3% increase.
- Details were still strong across the board. The diffusion index showed a widening in price pressures while the Fed’s preferred inflation measure – core services less rent, has trended higher to 8.2% in March on a three-month annualized basis from 4% in December of 2023.

Abnormally high inflation pressures impacting more products

Share of CPI basket ex-shelter by annualized near-term (three month/three month)



Source: U.S. Bureau of Labor Statistics, RBC Economics

- Outside of core items, food inflation grew at 2.2% y-o-y, same rate as in February. Grocery price growth ticked higher to 1.2%, while dining-out prices decelerated to 4.2%. Energy CPI jumped 2.1% from last year in March on both higher gasoline (+1.3%) and electricity prices (+5%).
- Price growth for transportation services was 10.7% higher than the level from a year ago driven by surging car insurance costs (+22% yoy). Apparel prices also started to tick higher (+0.4%), following the flat reading from last month.
- Rent remained the main contributor of the price growth, up 5.7% year-over-year in March. But we expect that component to slow further, following the declines in market rent.
- **Bottom line:** The Fed has reiterated that the recent upticks in inflation readings do not reshape the overall view on expected price growth going forward. But the string of upside surprises is getting longer, calling into question just how much inflation can sustainably slow without the economy softening more than it has. There are still reasons to expect inflation will drift lower going forward - lower hiring demand is slowing wage growth even with unemployment still very low. Consumer inflation expectations have ticked lower and we do expect unemployment to edge higher this

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year. But the breadth of the upside surprise in March CPI will worry Federal Reserve policymakers who were already starting to waffle on the amount of cuts that might be warranted this year.

U.S. CPI Growth				
	<u>Jan-24</u>	<u>Feb-24</u>	<u>Mar-24</u>	<u>Mar-24</u>
	<i>MoM % change (SA)</i>			<i>YoY % change (NSA)</i>
Headline	0.3	0.4	0.4	3.5
Food	0.4	0.0	0.1	2.2
Energy	-0.9	2.3	1.1	2.1
Core	0.4	0.4	0.4	3.8
Goods ex food and energy	-0.3	0.1	-0.2	-0.7
<i>Used cars and trucks</i>	-3.4	0.5	-1.1	-2.2
Services ex energy	0.7	0.5	0.5	5.4
<i>Rent of shelter</i>	0.6	0.4	0.5	5.7