

Economic Analysis

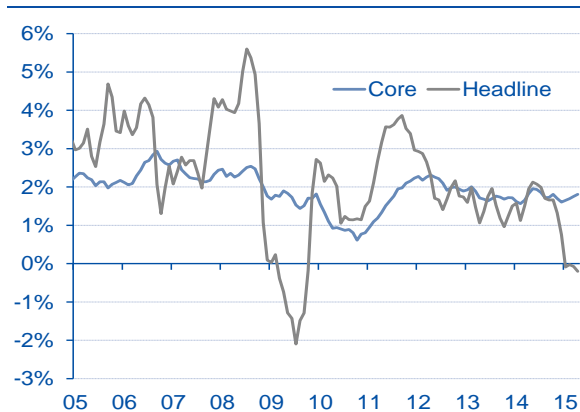
April Core CPI Edges Closer to Fed Target

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- **Headline CPI rose 0.1% in April but remained negative YoY for the fourth straight month**
- **Core CPI unexpectedly increased 0.3%, due largely to pressures from medical costs**
- **On a YoY basis, core CPI rose 1.8%, shifting towards the Fed's target rate**

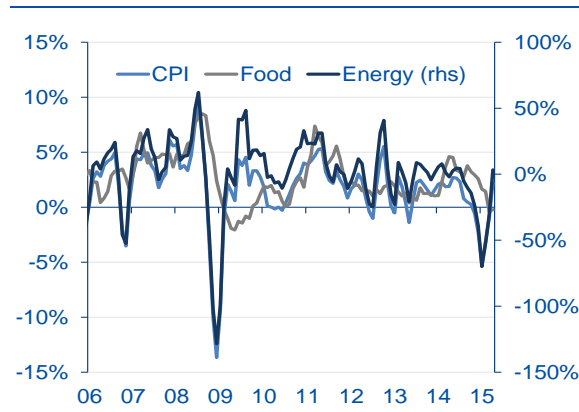
Headline CPI inflation in April was moderate, gaining 0.1% MoM after last month's 0.2% MoM increase. On a year over year basis, headline CPI was down 0.2%, but this was due primarily to energy prices, which are expected to continue increasing from their slump in the beginning of the year. Core CPI, excluding food and energy, surprised however, rising 0.3% MoM— the largest rise since January 2013. This gain in the core index was due primarily to medical costs, which was up 0.7% in April, the biggest increase since January 2007. Other factors include rent prices, used cars and trucks, and furniture. Readings of energy costs and gasoline did not show pressure, tumbling 1.3% and 1.7% respectively. Airfares and apparel also showed downward pressure. On a year over year basis, core CPI rose 1.8%, which should give the Fed more confidence that inflation will move back towards their target rate over the medium term. Inflation will need to continue its climb in order for the Fed to be sufficiently assured that an increase in the benchmark rate is necessary. Although this month's data points closer to an inflation rate at the Fed's target, we maintain our expectations for a Fed funds rate hike in September. We do not believe that April's report will impact inflation expectations enough to persuade the Fed to raise rates in June.

Chart 1
Core and Headline CPI (YoY % change)



Source: BLS & BBVA Research

Chart 2
CPI Indexes (3m% change, annualized)



Source: BLS & BBVA Research

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