

Economic Analysis

Both headline and core inflation increase in March

Filip Blazheski / Kim Chase

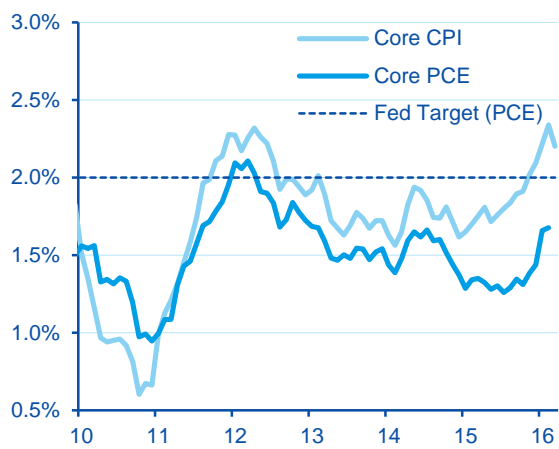
- **Headline inflation increased 0.1% MoM, supported by higher oil prices**
- **Core inflation increased 0.1% MoM alongside a slowdown in core service prices**
- **Core CPI was up 2.2% YoY, which should encourage further interest rate hikes this year**

The increase in oil prices since the end of January has pushed headline consumer price index (CPI) up 0.1% MoM, but still less than expected (consensus was for a 0.2% increase). On a YoY basis, headline CPI was up 0.9%. Food prices were down 0.2% MoM, the first decline since December, while the energy index increased 0.95% MoM after a 6.0% decline in February. On a YoY level, the energy index is still down 12.6%, with more of a drag coming from energy commodities, such as gasoline, than energy services, such as electricity. We expect that oil prices will at least remain relatively stable around current levels over the next quarter, reducing the drag on headline inflation.

Core CPI, excluding the volatile food and energy categories, increased 0.1% MoM, the smallest increase in seven months. On a YoY level, core CPI exceeded 2% for the fifth month in a row, although it was slightly lower than in February (Chart 1). The core services index (Chart 2) contributed to the increase in core CPI, with MoM gains in shelter (0.2%), transportation (0.2%) and medical care services (0.1%). Prices of core commodities declined 0.2%, which should provide some incentive for an increase in real retail sales in April, after they disappointed somewhat in March.

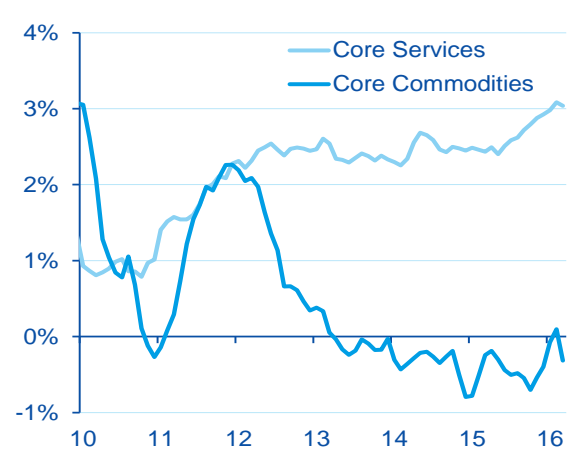
Although core CPI has reached a solid level, the Fed's preferred inflation metric, the core PCE index, has consistently been lower since 2010—remaining well below the Fed's 2% YoY target. Currently, core PCE stands at 1.7% YoY. As long as core CPI does not surprise to the downside, together with the strengthening labor market and continued wage gains, it will lead to gains in the PCE price index, which will support the Fed's decisions to continue increasing interest rates this year.

Chart 1
Inflation Metrics
YoY % Change



Source: BLS, BEA & BBVA Research

Chart 2
Core Services and Commodities
YoY % Change



Source: BLS & BBVA Research

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