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March CPI

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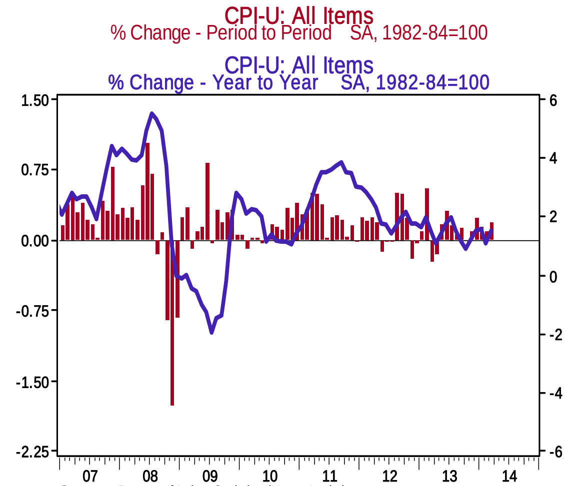
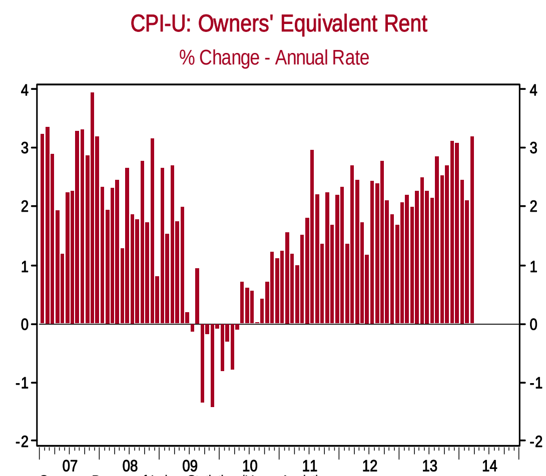
- The Consumer Price Index (CPI) increased 0.2% in March versus consensus expectations of a 0.1% rise. The CPI is up 1.5% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) rose 0.2% in March and is up 1.2% in the past year.
- The increase in the overall CPI in March was primarily due to housing and food, which each rose 0.4%. Energy prices declined 0.1%. The "core" CPI, which excludes food and energy, was up 0.2% in March, above consensus expectations of a 0.1% rise. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – declined 0.3% in March, but are up 0.5% in the past year. Real *weekly* earnings are also up 0.5% in the past year.

Implications: Consumer price inflation came in higher than the consensus expected for March, for both all items and the "core," which excludes food and energy. The headline measures of prices increased 0.2%. More importantly, there appears to be some gradual acceleration in these broad measures of inflation. For example, consumer prices are up 1.5% in the past year but up at a 1.8% annual rate in the past three months. The price gains in March were led by food and housing costs and we expect this trend to continue. Droughts and unusually cold winter weather will help push prices up for farm products. Meanwhile, owners' equivalent rent (the government's estimate of what homeowners would charge themselves for rent), which makes up about ¼ of the overall CPI, is up 2.6% from a year ago versus a 2.1% gain in the previous twelve months. This measure will be a key source of the acceleration in inflation in the year ahead, in large part fueled by a shift toward renting rather than owning. Lurking in the background, of course, is that monetary policy has been loose and is putting upward pressure on what is still low measured inflation. For the time being, neither overall inflation nor core inflation is setting off alarm bells. Instead, they suggest the Fed's preferred measure of inflation, the PCE deflator (which usually runs a ¼ point below the overall CPI) will remain below the Fed's target of 2%. But given loose monetary policy, we don't expect this to last; inflation should reach the 2% target by late 2014. In other news this morning, the Empire State index, a measure of factory sentiment in New York, fell to +1.3 in April from +5.6 in March. We expect other regional measures of factory output to move higher, reflecting better weather.



Sources: Bureau of Labor Statistics /Haver Analytics



Source: Bureau of Labor Statistics /Haver Analytics

CPI - U *All Data Seasonally Adjusted*	Mar-14	Feb-14	Jan-14	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.2%**	0.1%	0.1%	1.8%	1.6%	1.5%
Ex Food & Energy	**0.2%**	0.1%	0.1%	1.8%	1.7%	1.7%
Ex Energy	**0.2%**	0.2%	0.1%	2.1%	1.8%	1.7%
Energy	**-0.1%**	-0.5%	0.6%	-0.2%	0.4%	0.4%
Food and Beverages	**0.4%**	0.4%	0.1%	3.3%	2.2%	1.7%
Housing	**0.4%**	0.2%	0.4%	4.5%	3.4%	2.8%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	2.6%	2.8%	2.6%
New Vehicles	**0.0%**	0.1%	-0.3%	-0.7%	-0.8%	0.2%
Medical Care	**0.2%**	0.3%	0.3%	3.1%	1.8%	2.2%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.2%	2.8%	2.6%	2.3%
Real Average Hourly Earnings	**-0.3%**	0.3%	0.1%	0.4%	0.4%	0.5%

Source: U.S. Department of Labor