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March CPI

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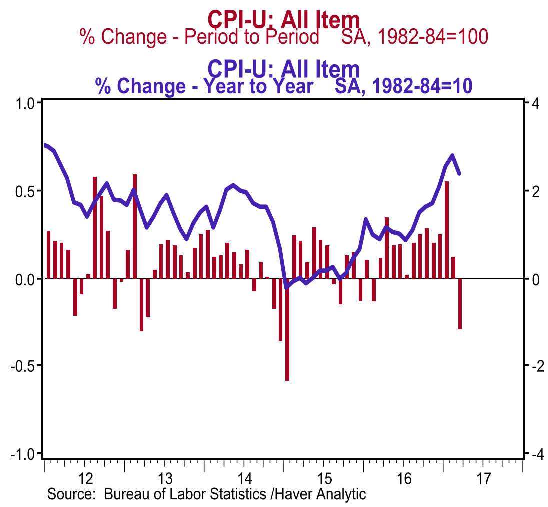
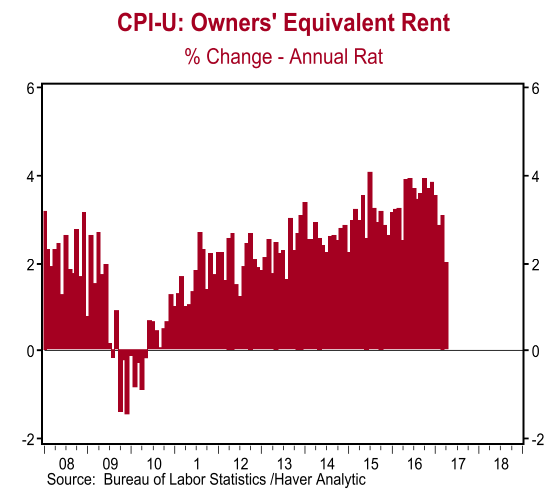
- The Consumer Price Index (CPI) declined 0.3% in March, well below the consensus expectation of no change. The CPI is up 2.4% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) declined 0.4% in March but is up 2.1% in the past year.
- Energy prices fell 3.2% in March, while food prices rose 0.3%. The "core" CPI, which excludes food and energy, declined 0.1% in March, well below the consensus expected rise of 0.2%. Core prices are up 2.0% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.5% in March and are up 0.3% in the past year. Real average weekly earnings are unchanged in the past year.

Implications: The consumer price index declined in March for the first time in more than a year. But one month does not make a trend. When you do look at the trend, as the chart to the right shows, consumer prices have been steadily rising since early 2015. Energy prices were a key driver pushing prices lower in March, down 3.2%, as gasoline prices fell 6.2%. Meanwhile rising costs for fruits and vegetables pushed food prices higher. Stripping out these volatile food and energy components, "core" CPI declined 0.1% in March. That is the first decline in "core" prices since January of 2010. Housing and medical care, which have been key drivers pushing prices higher in recent years, continued to rise in March, both up 0.1%. But falling costs for wireless telephone service, vehicles (particularly used cars and trucks), and clothing pushed "core" consumer prices lower. Don't sound the alarm bells. In spite of the drop in March, consumer prices are up still 2.4% in the past year while "core" prices are up 2.0%. And plugging the CPI into our models suggests the Fed's favorite measure of inflation, the PCE index, is up 2.0% from a year ago, exactly on target with the lingering effects of loose monetary policy the past couple of years still on the way. The best news in today's report was a 0.5% rise in real average hourly earnings. These earnings are up a modest 0.3% over the past year, but, given continued employment gains and a tightening labor market, this should accelerate soon. As a whole, the March CPI report should do little to change the Federal Reserve's path of at least two more rate hikes in 2017 as well as the start to balance sheet normalization.





CPI - U All Data Seasonally Adjusted Except for Yr to Yr	Mar-17	Feb-17	Jan-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-0.3%	0.1%	0.6%	1.5%	2.3%	2.4%
Ex Food & Energy	-0.1%	0.2%	0.3%	1.6%	1.9%	2.0%
Ex Energy	-0.1%	0.2%	0.3%	1.8%	1.8%	1.8%
Energy	-3.2%	-1.0%	4.0%	-1.3%	9.0%	10.9%
Food and Beverages	0.3%	0.2%	0.1%	2.8%	1.2%	0.5%
Housing	0.1%	0.3%	0.3%	2.5%	2.9%	3.1%
Owners Equivalent Rent	0.2%	0.3%	0.2%	2.7%	3.2%	3.5%
New Vehicles	-0.3%	-0.2%	0.9%	1.4%	1.1%	0.2%
Medical Care	0.1%	0.1%	0.2%	1.8%	1.7%	3.5%
Services (Excluding Energy Services)	-0.1%	0.3%	0.3%	2.0%	2.5%	2.9%
Real Average Hourly Earnings	0.5%	0.1%	-0.4%	0.7%	0.2%	0.3%

Source: U.S. Department of Labor