# March CPI

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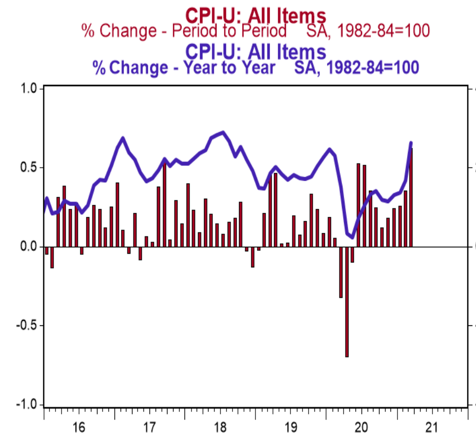
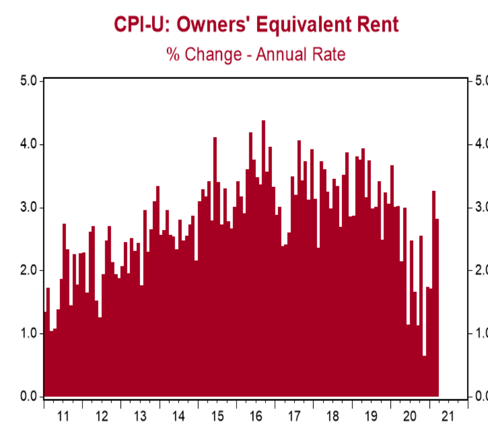
- The Consumer Price Index (CPI) increased 0.6% in March, above the consensus expected +0.5%. The CPI is up 2.6% from a year ago.
- Energy prices rose 5.0% in March, while food prices increased 0.1%. The "core" CPI, which excludes food and energy rose 0.3% in March, coming in above the consensus expected +0.2%. Core prices are up 1.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.8% in March, but are up 1.5% in the past year. Real average weekly earnings are up 3.9% in the past year.




Source: Bureau of Labor Statistics/Haver Analytics




Source: Bureau of Labor Statistics/Haver Analytics

**Implications:** What do you get when you take rising vaccinations and immunity, add in additional stimulus, all in an economy where supply-chains are still working to get back online? Inflation rising at the fastest pace in more than a decade, on the tails of sizeable increases in January and February. The 0.6% increase in the March CPI ties for the largest single-month increase going back to 2009. The monthly gain in March, as well as the "base-effect" impact of comparing to last March (when prices were declining) pushed the 12-month increase in the CPI up to 2.6%. With the largest monthly decline coming last April, even a flat reading in the CPI in the month ahead would put the 12-month CPI increase above 3%. It's going to take time for supply-chain issues that have created shortages - and lifted prices - for things like semiconductors, lumber, and household appliance to resolve, but that is a temporary (or as the Fed likes to say "transitory") factor. What is less temporary is the massive 27% increase in the M2 money supply and ongoing proposals for trillions more in government spending. Simply put, math wins, and today the math says inflation above the Fed's 2% target is likely to be with us for some time. Will that change the Fed's plans to hold rates at zero for the foreseeable future? Don't count on it. The Fed seems to believe that this rise will ease later this year and into next as re-openings help ease supply-chain pressures. We believe they are writing off the upward pressure in prices from the money supply growth too quickly. Taking a look at the details of today's report shows energy led the consumer price index higher in March, rising 5.0% on the back of higher costs for gasoline and natural gas. Food prices rose a more modest 0.1%, as higher costs for fruits and vegetables were largely offset by lower prices on dairy products. Strip out these typically volatile categories, and "core" prices still rose 0.3% in March. Here, housing costs were the main contributor, despite the governments measure for housing (which focuses on what homeowners would have to pay if they rented the house from someone else) being artificially subdued by the moratorium on evictions. We like to follow "cash inflation," which is everything in the CPI except for owners' equivalent rent. Cash inflation increased 0.7% in March and is up at a 4.9% annual rate since prices began to rise again last June. Prices for used cars (impacted by the semiconductor shortage slowing production of today's ever more tech-heavy vehicles), auto insurance, and medical care also moved higher. Inflation will be front and center in 2021 as the Fed – and markets – try to untangle just how quickly, and how sustained, will be the impact the of the unprecedented spending in response to COVID-19. There is no free lunch.

| **CPI - U**<br>*All Data Seasonally Adjusted Except for Yr to Yr* | **Mar-21** | **Feb-21** | **Jan-21** | **3-mo % Ch. annualized** | **6-mo % Ch. annualized** | **Yr to Yr % Change** |
|---|---|---|---|---|---|---|
| ***Consumer Price Index*** | **0.6%** | 0.4% | 0.3% | 5.0% | 3.6% | 2.6% |
| ***Ex Food & Energy*** | **0.3%** | 0.1% | 0.0% | 1.9% | 1.5% | 1.6% |
| ***Ex Energy*** | **0.3%** | 0.1% | 0.0% | 1.8% | 1.6% | 1.9% |
| ***Energy*** | **5.0%** | 3.9% | 3.5% | 62.2% | 37.6% | 13.2% |
| ***Food*** | **0.1%** | 0.2% | 0.1% | 1.5% | 1.7% | 3.5% |
| ***Housing*** | **0.3%** | 0.2% | 0.0% | 2.5% | 2.3% | 2.1% |
| ***Owners Equivalent Rent*** | **0.2%** | 0.3% | 0.1% | 2.6% | 2.1% | 2.0% |
| ***New Vehicles*** | **0.0%** | 0.0% | -0.5% | -2.2% | 0.3% | 1.5% |
| ***Medical Care*** | **0.1%** | 0.3% | 0.4% | 3.1% | 0.1% | 1.8% |
| ***Services (Excluding Energy Services)*** | **0.4%** | 0.2% | 0.0% | 2.7% | 2.0% | 1.6% |
| ***Real Average Hourly Earnings*** | **-0.8%** | -0.1% | -0.3% | -4.5% | -0.5% | 1.5% |

*Source: U.S. Department of Labor*