



Consumer Prices Rise Modestly in March

mark.vitner@piedmontcrescentcapital.com

Chief Economist (704) 458-4000

Inflation Continued to Decelerate in March

- ▲ The Consumer Price Index rose 0.1% in March and is now up 5.0% year-to-year.
- ▲ Prices excluding food and energy items, rose 0.4% and are now up 5.6% year-to-year.
- ▲ Energy prices fell 3.5% in March, with gasoline prices plunging 4.6%.
- ▲ Food prices were unchanged, as a 0.6% rise in prices at restaurants was offset by a 0.3% drop in prices at the grocery store.
- ▲ Shelter costs rose 0.6% in March, marking a slight deceleration from the three prior months. Both rent and owners' equivalent rent rose 0.5%, while lodging cost rose 2.7%.
- ▲ Used car prices fell 0.9%, continuing its recent string of declines. Prices at used-car auctions have been rising, however, so this trend appears unsustainable.
- ▲ Prices for motor vehicle insurance rose 1.2% in March and are up 15% year-to-year.

Consumer prices rose more modestly in March, with the headline Consumer Price Index rising just 0.1% following a 0.4% gain in February and 0.5% gain January. Prices have risen at a 3.6% annual rate over the past three months and are now up 5.0% over the past year. The year-to-year rate has been steadily decelerating since it peaked last June, although the pace of deceleration has ebbed.

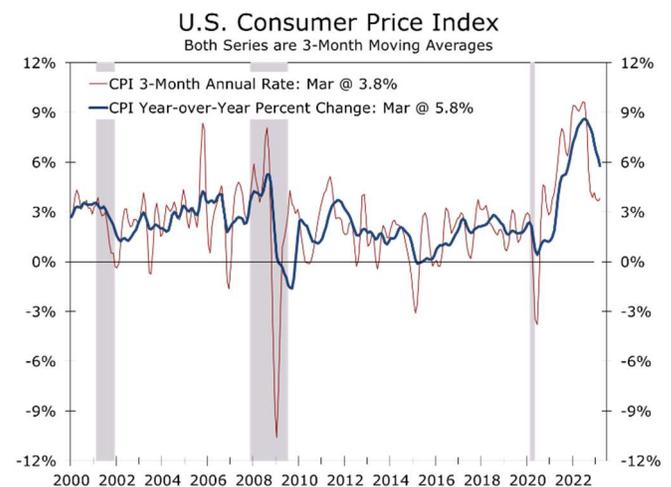
The moderation in inflation is a relief to consumers and the financial markets. Prices of frequently purchased items such as groceries and gasoline eased notably. While overall food prices were unchanged, prices at

the grocery store fell 0.3%. Prices for meats, poultry, fish, and eggs fell 1.4%, with declines evident across every major category. Eggs saw the largest drop, with prices falling 10.9%, following a 6.7% drop the prior month. Prices are still up a whopping 36% over the past year, however. Prices for fresh fruit and vegetables fell 1.7% in March and are down 0.2% from the prior year.

Prices eased for many items consumers buy frequently, such as gasoline and groceries.

Energy prices fell 3.5% in March, with prices for motor fuels falling 4.7% and prices for fuel oil falling 2.5%. Prices for energy services also declined, as natural gas prices fell 7.1% and prices for electricity fell 0.7%.

The slide in gasoline prices might come as a surprise to folks that fill up their tanks regularly. Prices for all grades of gasoline have been rising in recent weeks. The increases, however, are less than they usually are this time of year, resulting in a seasonally adjusted decline. Oil prices have risen more recently, suggesting we will likely see gasoline prices rebound.



Source: Bureau of Labor Statistics



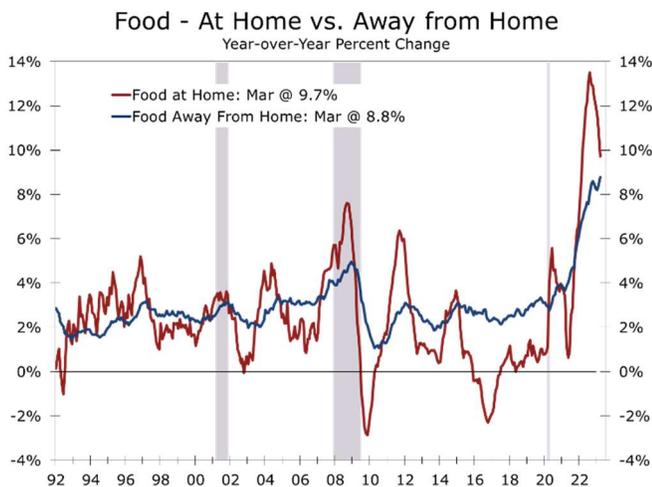
The moderation in food and energy prices may explain why consumer confidence held up as well as it did in March, despite the ominous headlines surrounding the collapse of Silicon Valley Bank. Consumers may be in a better position, which could lead to stronger spending and a better spring home buying season.

Prices for labor-intensive services remain a problem, as wage pressures remain stubborn.

Prices excluding food and energy rose 0.4% in March. Shelter costs rose 0.6% and were responsible for the bulk of that increase. Shelter accounts for 43.4% of the core CPI. Both rent and owners' equivalent rent rose 0.5% in March, while the cost of lodging away from home rose 2.7%. With the surge in travel, hotels are enjoying a great deal of pricing power. Prices at hotels rose 3.1% in March and are up 8.1% over the past year.

Prices for core goods rose just 0.2% in March. Used car prices fell 0.9% and are an obvious outlier. Prices have fallen 11.2% over the past year and have largely reversed the run-up that accompanied the reopening of the economy. Prices have been rising at used car auctions, however, so the relief that falling used car prices have provided to inflation is likely behind us.

New car prices rose 0.6% and are up 6.6% over the last year. New car prices have risen relative to median income, which has priced out many potential buyers.



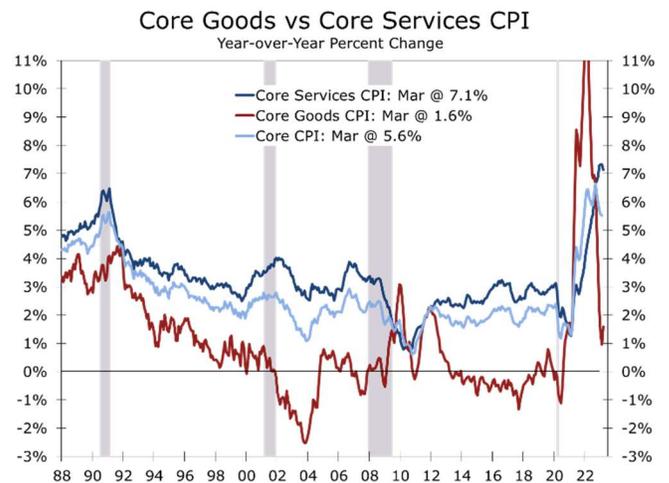
Source: Bureau of Labor Statistics

Prices for services, less energy, rose 0.4% in March and are up 7.1% year-to-year. Most of that increase is due to higher shelter costs, which are coming down. The BLS measure of rents and owners' equivalent rent trails market-based rent measures, all of which have moderated substantially in recent months so we should see continued relief in the BLS measures.

Beyond shelter, services prices are proving persistent. Services prices, excluding energy and shelter, rose 0.4%. The sharpest price gains continue to be in labor-intensive areas or areas still enjoying a strong rebound from the pandemic. Travel in leisure spending is a notable hotspot, with airline fares rising 4.0% in March following a 6.4% rise in February. Fares are up 17.7% over the past year. Prices of other personal services rose 0.5% in March and are up 5.3% over the past year.

Taming services prices is essential if inflation is to return to the Fed's 2% target.

While the March CPI data was in line with consensus expectations, the markets breathed a sigh of relief as there were no big negative surprises. Inflation appears to be moderating enough that the Fed will likely only need to hike rates 1 or 2 more times this cycle.



Source: Bureau of Labor Statistics

Disclaimer: This publication has been prepared for **informational purposes only** and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute investment advice.

