Data Release: Falling energy prices restrain consumer price growth in April, but core prices accelerate firmly

- Consumer prices rose 0.1% (month-over-month) in April, bang on survey expectations. Core CPI (excluding food and energy) rose 0.3%, ahead of the consensus call for 0.2%. On a year-over-year basis, overall consumer price inflation fell to -0.2% (from -0.1%), while core inflation remained steady at 1.8%.

- Energy prices fell 1.3% in the month, following gains in February and March. Still, energy prices remain 19.4% below year-ago levels.

- Food prices were flat following a decline in March. On a year-over-year basis, food price inflation has been decelerating since December, slowing to +2.0% in April.

- Core goods prices rose a modest 0.1% (M/M) and remained steady at -0.2% on a year-over-year basis. Gains were led by used cars and trucks, up 0.6% (M/M). Used vehicles have seen pronounced growth over the last several months following price declines through the end of last year, but on a year-over-year basis are still down 0.5%. The one noticeable week spot within core goods was apparel prices, which fell 0.3% and are down 0.8% year-over-year.

- Core services exhibited strong growth of 0.3% (M/M), accelerating from 0.2% in March. Growth was led by medical care services, which were up 0.9% (M/M) (the hospital services subcomponent was up 1.9%). After several years of decelerating, medical care services are now on a clear upward trend with the year-over-year metric rising to 2.6%. Shelter costs also contributed to rising core services, up 0.3% (M/M) and 3.0% Y/Y. Both market rents and owner's equivalent rent rose 0.3% during the month.

Key Implications

- While the pull of low energy prices kept headline consumer price inflation in negative territory, this was not a soft report. The continued growth in services spending suggests that despite global headwinds, price pressures in the domestic economy are steadily building.

- The growth in medical care services prices was the strongest since November 1990 and suggests that the last few years of disinflation in healthcare costs may be over. This will have broader implications not only for future inflation but also government budgets.

- There are some signs in this report of the disinflationary impact of the dollar, particularly in falling apparel prices. These may continue over the next several months, but given the dollar's recent pullback, this trend is less of a concern for the medium-term inflation outlook.

- The bottom line is that with energy prices slowly rebounding and the dollar's rise coming off the boil, downside risks to the inflation outlook appear to have diminished. This puts the Fed's focus squarely on the economic data, where we await signs of a more robust rebound following the disappointment early in the year.

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