# U.S. Data Review

- CPI: pressure in energy goods; moderation in core after a surge in Q1
- Retail sales: disappointing results in April joined by downward revisions

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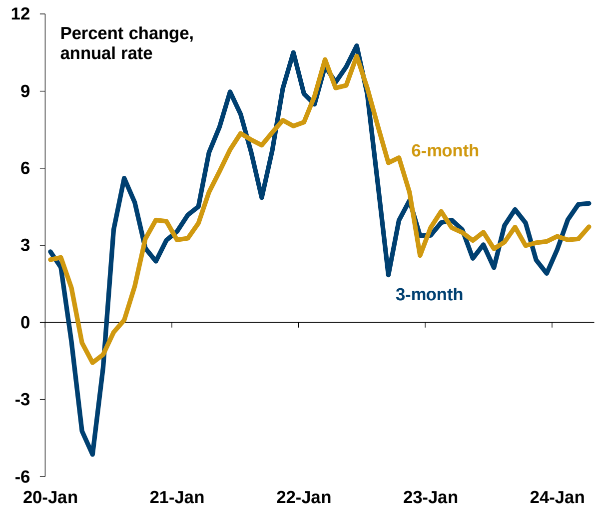
## CPI

- The increase in the CPI in April moderated from rapid readings in recent months, with both the headline and core indexes advancing 0.3 percent (0.313 percent and 0.292 percent, respectively, with less rounding) versus the Bloomberg median expectation of 0.4 percent for the headline index and 0.3 percent for the core. The shifts equated to year-over-year changes of 3.4 percent for the headline index (down from 3.5 percent in March) and 3.6 percent for the core component (versus 3.8 percent in March). While the latest reading could assist Fed officials in regaining some of the lost confidence that inflation will return to two percent over time, and that monetary policy is currently properly calibrated to facilitate that outcome, we suspect that one favorable reading is not enough to pull forward our expectation of the first rate cut coming at the September FOMC meeting. On the point of recent inflation performance, the three and six-month growth rates for the headline CPI illustrate the magnitude of the latest pressure. The three-month annualized change in the headline index matched that in March (4.6 percent), while the six-month change accelerated to 3.7 percent from 3.2 percent; the three-month change in the core slowed by 0.4 percentage point to 4.1 percent, but the six-month change picked up to 4.0 percent from 3.9 percent – all a ways away from the Fed's two percent target (charts, below).

- The energy component increased for the third consecutive month (+1.1 percent month-over-month; +2.6 percent year-over-year). Price pressure in April reflected a jump of 2.7 percent in energy commodities, which was driven by an increase of 2.8 percent in gasoline prices. In contrast, prices of energy services fell 0.7 percent after 10 consecutive gains.

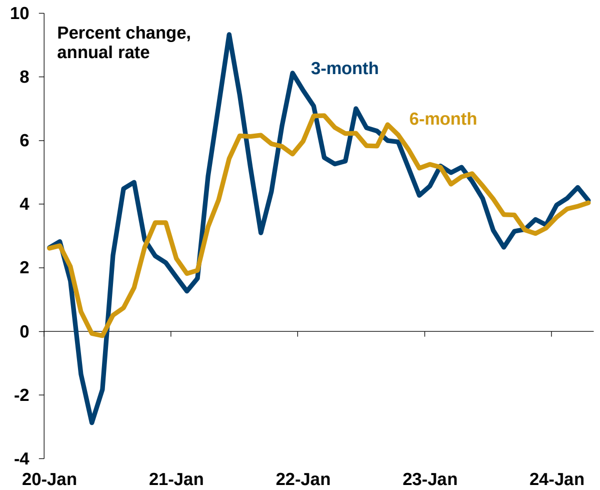
- The food component rounded down to no change in April, the second such reading in the past three months (+2.2 percent year-over-year). The costs of food at home (i.e. groceries) dipped 0.2 percent, although prices of food away from home (restaurant meals) rose 0.3 percent (not seasonally adjusted).

### Headline CPI




*Source: Bureau of Labor Statistics via Haver Analytics*

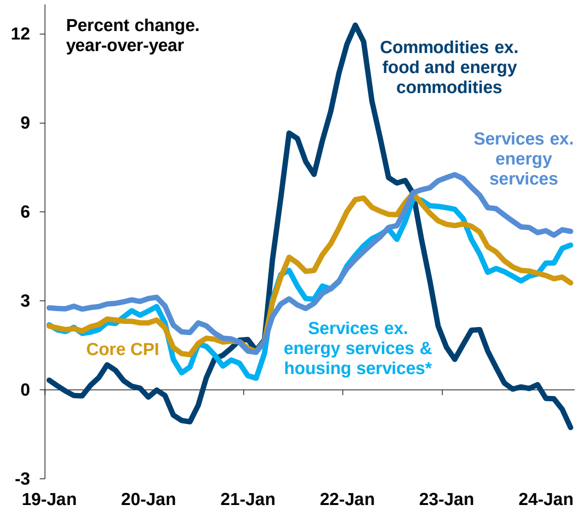
### Core CPI




*Source: Bureau of Labor Statistics via Haver Analytics*

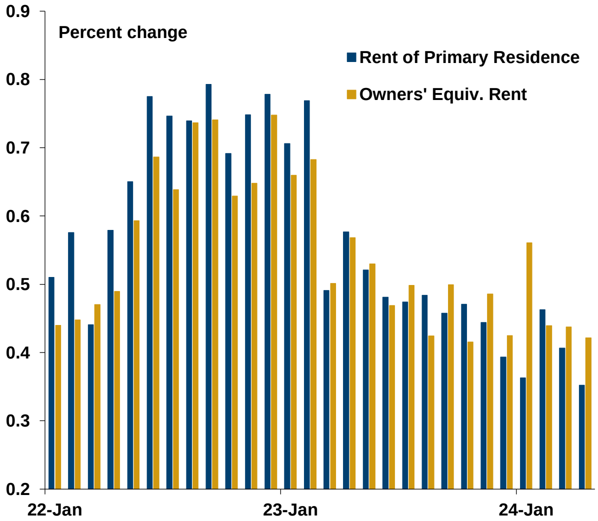
- The advance of 0.3 percent in the core CPI lagged three consecutive readings that rounded up to 0.4 percent (+3.6 percent year-over-year in April versus +3.8 percent in the prior month; chart, right). Core goods prices eased 0.1 percent (-1.3 percent year-over-year), while service prices excluding energy services rose 0.4 percent (+5.3 percent year-over year, down one tick from the March reading). Core service prices, in particular, have been the focus of Fed officials, and some positive signs emerged in April. Cooling rents appear to be filtering through more readily to the shelter area of the CPI, with the rent of primary residence component increasing 0.35 percent in April versus an average monthly advance of 0.41 percent in Q1 (5.4 percent year-over-year versus 5.7 percent in March; charts, below). Similarly, the owners' equivalent rent of residences component increased 0.4 percent for the third consecutive month after a jump of 0.6 percent in January, with the year-over-year change easing one tick to 5.8 percent. Progress has been slow, but these areas are drifting back toward their pre-pandemic trends. Core service inflation excluding primary rents and owners' equivalent rent advanced 0.4 percent after average monthly increases of 0.7 percent in Q1 (+4.9 percent year-over-year, up one tick from the March reading). The motor vehicle insurance component registered another brisk advance (+1.8 percent after a surge of 2.6 percent in March), but other areas recorded more favorable results. Airfares, for example, slipped 0.8 percent, hotel fees dipped 0.3 percent, and education and communication expenses rose modestly (+0.2 percent). Again, incremental progress.

### Decomposition of Core CPI



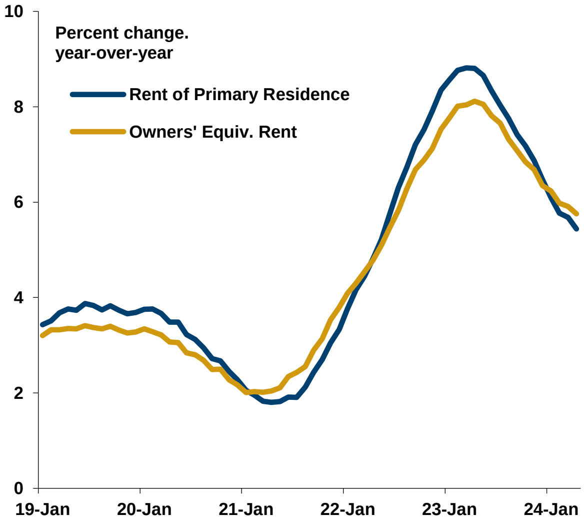

*Source: Bureau of Labor Statistics via Haver Analytics*

### CPI: Housing




*Source: Bureau of Labor Statistics via Haver Analytics*

### CPI: Housing




*Source: Bureau of Labor Statistics via Haver Analytics*

# Retail Sales

- Retail sales were flat in April from downward-revised readings in the previous two months. The latest results raise the possibility of a hesitation in consumption expenditures in Q2 after firm activity in the back half of last year.

- In the latest month, sales at motor vehicle and parts dealers declined 0.8 percent despite an increase in new unit sales (15.7 million units, annual rate, in April versus 15.6 in the prior month).

### Retail Sales -- Monthly Percent Change

| | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 |
|---|---|---|---|---|---|
| Total | 0.4 | -1.1 | 0.7 | 0.6 | 0.0 |
| Ex.-Autos | 0.3 | -0.8 | 0.3 | 0.9 | 0.2 |
| Ex.-Autos, Ex.-Gas | 0.5 | -0.8 | 0.2 | 0.7 | -0.1 |
| Retail Control* | 0.6 | -0.4 | 0.0 | 1.0 | -0.3 |
| Autos | 0.5 | -2.2 | 2.2 | -0.3 | -0.8 |
| Gasoline | -0.8 | -1.4 | 1.9 | 2.1 | 3.1 |
| Clothing | 1.5 | -0.7 | 0.0 | -2.0 | 1.6 |
| General Merchandise | 1.3 | 0.1 | 0.4 | 1.3 | -0.3 |
| Nonstore** | 1.8 | -0.7 | -0.7 | 2.5 | -1.2 |

** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*

*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*

*Source: U.S. Census Bureau via Haver Analytics*

- Activity at gasoline stations advanced 3.1 percent. A portion of the strong result reflected higher prices, but real activity increased as well. Adjusting nominal sales by the gasoline component of the CPI (which surged 2.8 percent in April) suggested an uptick of 0.3 percent in real activity.

- Sales excluding the auto and gasoline components dipped 0.1 percent. A few areas posted solid readings – activity at clothing stores rose 1.6 percent and sales at electronics and appliance stores increased 1.5 percent – but the advances followed drops in the prior month and trends in both areas have moved sideways. Other areas registered sizable declines: activity at nonstore retailers interrupted its sharp upward trend with a drop of 1.2 percent, sales at sporting goods stores declined 0.9 percent, and activity at healthcare outlets eased 0.6 percent.

- All in all, the April retail report suggests an unimpressive start to Q2 by the consumer sector. The retail control (sales ex. autos, building supplies, and gasoline stations), which provides insight into goods spending in the GDP accounts, slipped 0.3 percent in April. Additionally, downward revisions to previous data suggest that real goods outlays in the GDP accounts could be a larger drag on consumer spending in Q1 than previously believed. A decline of 0.4 percent, annual rate, in real outlays for goods was offset by an advance of 4.0 percent in spending on services (total growth of real consumer spending of 2.5 percent in the preliminary GDP report for Q1). Expected revisions could shave about 0.2 percentage point from that total, which in turn would nudge Q1 GDP growth lower by about 0.1 percentage point (all else equal) from the first reading of 1.6 percent.