Bonds Rally as Consumer Prices Unexpectedly drop in March

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The overall consumer price index (CPI) fell by -0.05% last month, the first outright decline since May 2020, as prices for gasoline, airfare, lodging and used vehicles were all negative. On a year-over-year basis, headline CPI rose +2.4% in March, *matching a four-year low*. Core CPI, which excludes food and energy prices, was up by just +0.06%, the lowest monthly gain since early 2021. On a year-over-year basis, core CPI slipped from +3.1% to a four-year low of +2.8%. Core services accounted for the entire annual core increase, with core goods down slightly.

The widely-acknowledged first quarter decline in consumer demand seemed to have had an oversized effect on travel, as evident in the prices of gasoline (-6.3%) and airfare (-5.3%). Hotel/motel prices fell by the most in over three years. Overall shelter costs, which make up 35% of the total index, climbed just +0.2% last month, *the lowest since November 2021*. As anticipated, an increase in housing supply has driven shelter costs down over the past year and should continue to exert downward pressure in the coming months.

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