

## Consumer Prices Surge in March

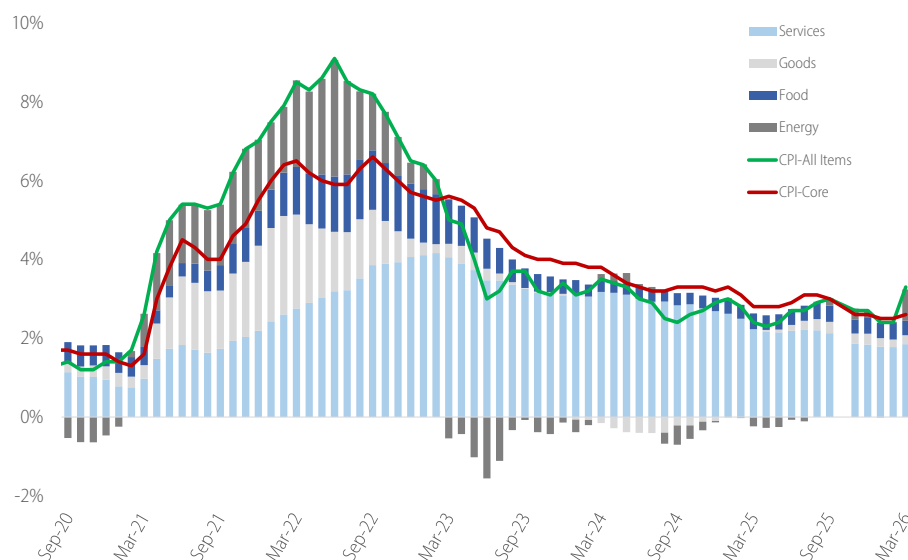
Investors expected an ugly CPI report for March, and the BLS delivered, reporting the biggest single monthly increase since June 2022. The +0.9% overall gain, which matched the median forecast, drove the annual pace up from +2.4% to +3.3%. As expected, the jump in consumer inflation last month was entirely driven by a surge in crude oil prices. The energy component, making up roughly 6.5% of the overall CPI basket, climbed +10.9% in March with a record +21.2% increase in gasoline prices somewhat offset by a -0.9% drop in the price of domestic utility gas.

The early reaction by the financial markets seems to be mild relief as the other headline numbers came in slightly below forecast – core CPI (which excludes energy) rose just +0.2% last month, nudging the year-over-year core rate up from +2.5% to +2.6%. The overriding question was whether the energy spike would bleed into the core. It wasn't evident in March ... but it's still early.

Food prices were *unchanged* last month, with the cost of groceries actually down -0.2%. Airfares continued to climb, up +2.7% last month and nearly +15% year-over-year. The cost for a new vehicle rose just +0.1%, while used cars and trucks were down for the third straight month (-0.4%). Lower prices have had a positive impact on auto insurance, which was *unchanged* in March and up just +0.8% for the year. The annual percentage increase in the cost of auto insurance has mercifully declined since reaching a peak of +20.3% in 2023.

Shelter costs, accounting for over a third of the overall basket and the primary downward driver of consumer inflation since 2022, rose +0.27% last month. The so-called supercore services index (core ex shelter) increased by just +0.18%, a 10-month low.

### Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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Today's report wasn't quite as bad as expected, but the conflict in the Middle East is far from over and energy prices will still have a pronounced impact on April CPI. In fact, last month's rise in gasoline prices (according to the BLS) was approximately half of the rise in pump prices reported by AAA . . . so there's certainly more to come, although the month-over-month gain won't be nearly as dramatic. As a result, there's very little insight to be gained from March CPI. Core inflation hasn't increased meaningfully yet but given the known surge in diesel and jet fuel prices, the cost of both goods and services could experience additional pressure as summer approaches.

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Fed officials have indicated a willingness to *look through* what is hoped will be a temporary spike in energy prices, but the FOMC is no closer to cutting rates. Bond yields are slightly higher in early trading, but lower on the week. Equities are mixed.

## Market Indications as of 9:31 A.M. Central Time

DOW	Down -71 to 48,114 (HIGH: 50,188)
NASDAQ	Up 153 to 22,976 (HIGH: 23,958)
S&P 500	Up 11 to 6,836 (HIGH: 6,979)
1-Yr T-bill	current yield 3.68%; opening yield 3.67%
2-Yr T-note	current yield 3.78%; opening yield 3.78%
3-Yr T-note	current yield 3.81%; opening yield 3.79%
5-Yr T-note	current yield 3.92%; opening yield 3.91%
10-Yr T-note	current yield 4.30%; opening yield 4.28%
30-Yr T-bond	current yield 4.91%; opening yield 4.88%

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