Price Pressure on the Rise, with More to Come

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This morning, the Bureau of Labor Statistics reported the headline Consumer Price Index (CPI) rose by a seasonally-adjusted +0.6% in March following a +0.4% increase in February. The gain topped forecasts and was *the largest in any single month since August 2012*. Food prices edged +0.1% higher, while energy prices rose +5.0% with gasoline (+9.1%) leading the way. With crude oil prices roughly double the average from a year ago, the year-over-year energy gain will be much more pronounced in the next report.

On an annual basis through March, food was up +3.5% and energy +13.2%. Overall CPI is now increasing at a +2.6% pace, the highest since August 2018; a month earlier, the annual CPI increase was +1.7%. The Fed has long telegraphed its inflation target at +2.0%. Although core CPI and core PCE are likely to reach that target in the coming months, Fed Chairman Powell continues to insist the FOMC won't tighten policy until prices are *above +2.0% for a sustained period*. This is a shift from a normally proactive to a reactive approach. So far, so good.

Core CPI, which excludes the volatile food and energy components and is probably a more accurate measure given the energy gyrations, rose by +0.3% in March after a +0.1% price gain in February. On a year-over-year basis through March, the core was up +1.6% after rising at a +1.3% pace a month earlier. Both headline and core CPI are expected to rise further in the next two months, reflecting "the base effect" relative to depressed prices a year ago as the pandemic set in. Prices didn't bottom out until May 2020, so the year-over-year percentage increase will likely move higher over the next two months.

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Roughly a third of the Consumer Price Index is Owner's Equivalent Rent (OER), which is an odd estimate of how much homeowners expect they could rent their homes for on a monthly basis. Although actual housing prices are increasing at the fastest pace in 15 years, OER rose by just +0.2% last month and +2.0% year-over-year. In the midst of a simultaneous housing boom and eviction moratorium, the housing component is extremely noisy. Frankly, most of the inflation data will be a challenging read for months.

In related news from last week, the Producer Price Index (PPI) for final demand rose +1.0% in March, twice the median forecast. The outsized March gain followed increases of +0.5% and +1.3% in the previous two months and boosted headline PPI up +4.2% year-over-year, *the biggest price increase in almost a decade*. Over just the last six months, producer prices are up an annualized +7.6%. On a year-over-year basis, producer prices for goods have risen +7.0%, while prices for services are up just +3.0%. Service prices are expected to move higher as an increasing number of bars and restaurants reopen, and higher still as summer approaches and more Americans take long overdue vacations.

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Many big ticket items are in short supply due to supply chain breakdowns. In particular, vehicles, computers and other electronics that rely on microchips are having trouble finding parts. This has resulted in slower production, continued lean inventories and higher prices. At the same time, consumers are flush with cash and queued-up to spend in the coming months. The pieces are in place for rising inflation in the near term, but Fed officials and most economists expect the increase will be transitory. Whether the coming economic boom ushers in a longer-lasting series of price increases remains to be seen. One way or another, inflation will make headlines for the first time in decades.

Market Indications as of 10:43 A.M. Central Time

DOW	Down 123 to 33,623 (HIGH: 33,801)
NASDAQ	Up 78 to 13,928 (HIGH: 14,095)
S&P 500	Up 4 to 4,132 (NEW HIGH)
1-Yr T-bill	current yield 0.06%; opening yield 0.06%
2-Yr T-note	current yield 0.16%; opening yield 0.17%
5-Yr T-note	current yield 0.87%; opening yield 0.89%
10-Yr T-note	current yield 1.66%; opening yield 1.67%
30-Yr T-bond	current yield 2.34%; opening yield 2.34%