

WEEK IN REVIEW

MAY 12, 2023

APRIL CPI SUGGESTS SLOWING INFLATION

In April, the Consumer Price Index (CPI) increased 0.4 percent and rose 4.9 percent over the last 12 months. This was the smallest 12-month increase since the period ending April 2021. The CPI measures the monthly change in prices paid by U.S. consumers. The U.S. Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

CONSUMER PRICE INDEX (CPI) ANNUAL CHANGE PERCENT



Source: BLS

The slowing in CPI over the past year has been driven by lower energy prices which decreased 5.1 percent over the past year. Core CPI, which excludes energy and food, increased 5.5 percent over the past year. However, the trend in Core CPI is also down. The largest component of Core CPI is the shelter category (Rent & Owners' Equivalent Rent) which started to slow in March. This component saw further slowing in April and is likely to continue to drop, reflecting a waning boost from expiring pandemic rent concessions and slowing growth in new rental pricing.

While inflation remains elevated, the good news is that the downward trend was confirmed and is supportive of the Federal Reserve – halting further increases in interest rates. On the other hand, recent data is not supportive of an interest rate pivot that could support a rally in financial assets (stocks and bonds). For now, corporate earnings and credit will be the key determinant for the markets. As of now, apart from the banking sector, the most recent corporate outcomes and future expectations have been better than anticipated.

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