

May 11, 2022

Slowdown in April U.S. inflation will not move the needle for the Fed

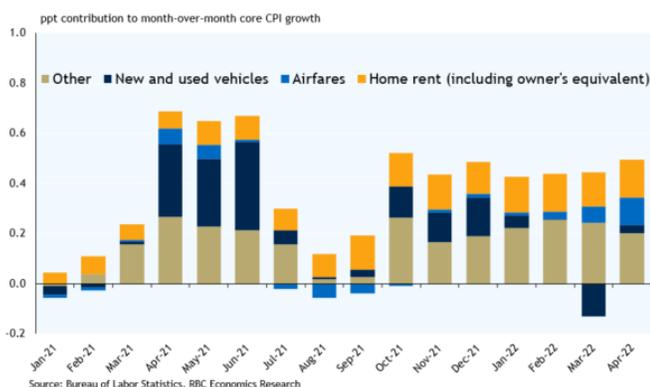
- Headline CPI slowed to 8.3% year-over-year from 8.5% in March.
- Core inflation also edged lower to 6.2% but was up a larger 0.6% month over month.
- Still-broad inflation pressure to keep Fed hiking faster.

A slowdown in U.S. CPI inflation in April, to 8.3% year over year was still above our and consensus expectations.

The decline was largely thanks to a drop in annual growth in used car prices, which subtracted roughly half a percent from the year over year headline reading. Energy price growth also eased slightly but offset was stronger in items including food, shelter, new vehicles and airfares. Food prices in April continued to accelerate, to 9.4% above year ago reflecting both higher grocery bills and dining out prices. Despite the decline in CPI, price pressures remain exceptionally firm – and broadly-based with 80% of the CPI basket (excluding shelter) seeing an above-target rate (2%) of price growth in April versus pre-pandemic levels.

Outside of food and energy products, growth in core inflation ticked lower to 6.2% in April, but was 0.6% higher from March. That month over month reading matches the faster rates of increase in late 2021 and early 2022, after having slowed to 0.3% in March. While consumer demand for goods remains exceptionally strong, keeping prices for merchandise elevated, pressure has also building more significantly for services. Shelter costs ticked up to 5.1% year over year in April backed by renewed strength in home rents. Price growth for transportation services also accelerated, to 8.5% as airfares surged back above pre-pandemic levels. Stronger consumer demand, global supply chain disruptions, and higher business input costs all continue to underpin inflation. Meantime labour market conditions are growing increasingly tight, driving up wages. The tick lower in April CPI is not expected to change the Fed's view that higher interest rates are needed quickly. We look forward to another 50 bps hike in June.

Rebound in airfares supported core U.S. price growth in April



U.S. CPI Growth

	Feb-22	Mar-22	Apr-22	Apr-22
	MoM % change (SA)			YoY % change
Headline	0.8	1.2	0.3	8.3
Food	1.0	1.0	0.9	9.4
Energy	3.5	11.0	-2.7	30.3
Core	0.5	0.3	0.6	6.2
Goods ex food and energy	0.4	-0.4	0.2	9.7
Used cars and trucks	-0.2	-3.8	-0.4	22.7
Services ex energy	0.5	0.6	0.7	4.9
Car and truck rental	3.5	11.7	0.8	10.4

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