

Economic Indicator — May 10, 2023

April CPI: No Major Surprises

Summary

The April CPI report was largely in line with forecasters' expectations. The 0.4% increase in both the headline and core CPI pointed to an inflation backdrop that is improving incrementally rather than rapidly. Falling prices at the grocery store and for energy services helped to offset an increase in gasoline prices in April, while an outsized jump in used auto prices was similarly tempered by declines in prices for travel related services such as airfares and lodging away from home. On balance, today's report does not materially change our outlook for inflation or Fed policy. We expect the FOMC to maintain the federal funds rate at its current level for the foreseeable future and for inflation to slow further in the months ahead as supply pressures continue to ease and demand growth weakens.

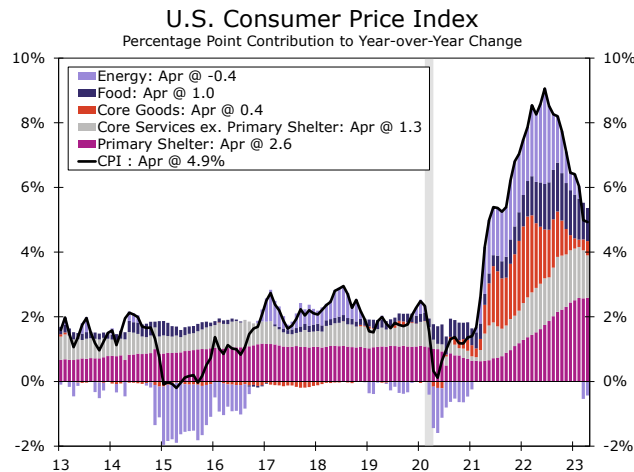
Economist(s)

Sarah House

Senior Economist | Wells Fargo Economics
 Sarah.House@wellsfargo.com | 704-410-3282

Michael Pugliese

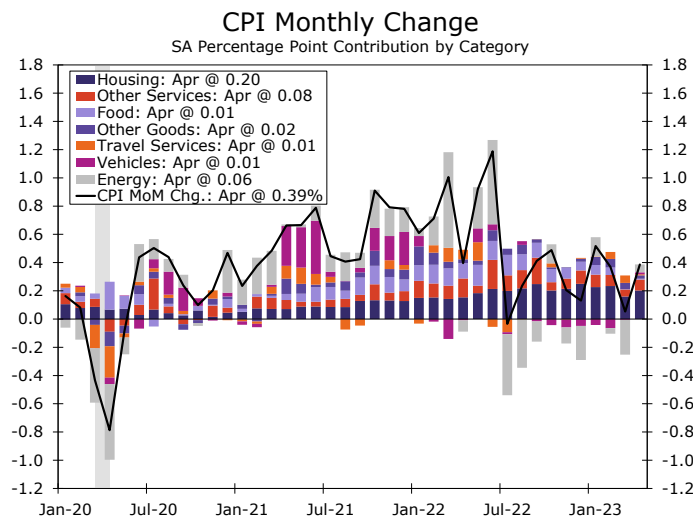
Senior Economist | Wells Fargo Economics
 Michael.D.Pugliese@wellsfargo.com | 212-214-5058



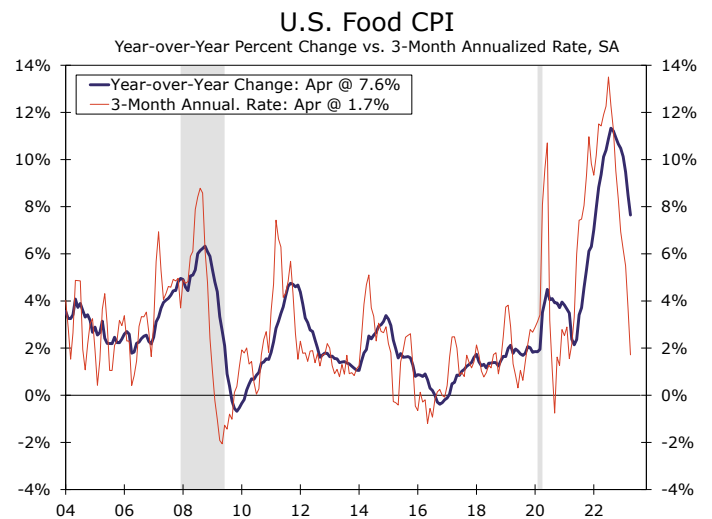
Source: U.S. Department of Labor and Wells Fargo Economics

CPI Increase Matches Expectations

The Consumer Price Index increased 0.4% in April and 4.9% over the past 12 months, roughly in line with forecasters' expectations, including our own. Excluding food and energy, the core CPI rose 0.4% in the month and 5.5% over the year. After a sizable decline in March, gasoline prices bounced back in April, rising 3.0%. Despite the pain at the pump, energy services inflation cooled as electricity and utility natural gas prices declined 0.7% and 4.9%, respectively. Consumers also continued to see some relief when it comes to food inflation. Grocery store prices fell 0.2% in April and have now posted the first back-to-back monthly declines since the summer of 2019. Prices for food consumed away from home increased 0.4%, but taken together food inflation is clearly slowing from the blistering pace seen over the past couple of years. The softer readings for energy and food inflation helped push year-over-year headline CPI inflation below 5% for the first time in two years. Further declines should occur in May and June, and headline inflation below 4% on a year-ago basis seems probable by June.



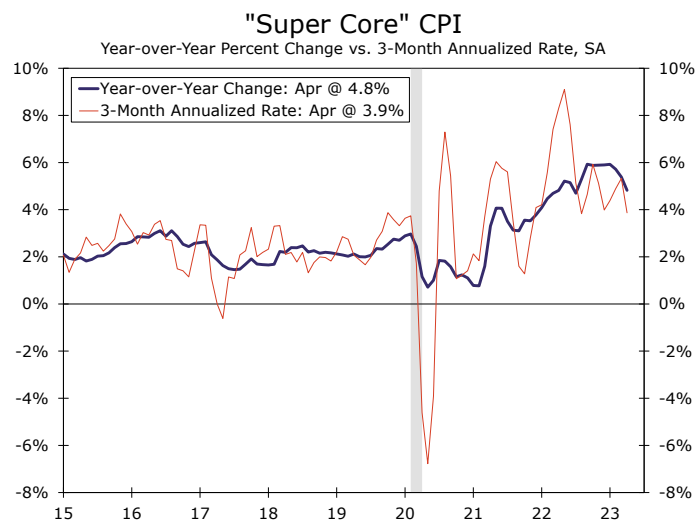
Source: U.S. Department of Labor and Wells Fargo Economics



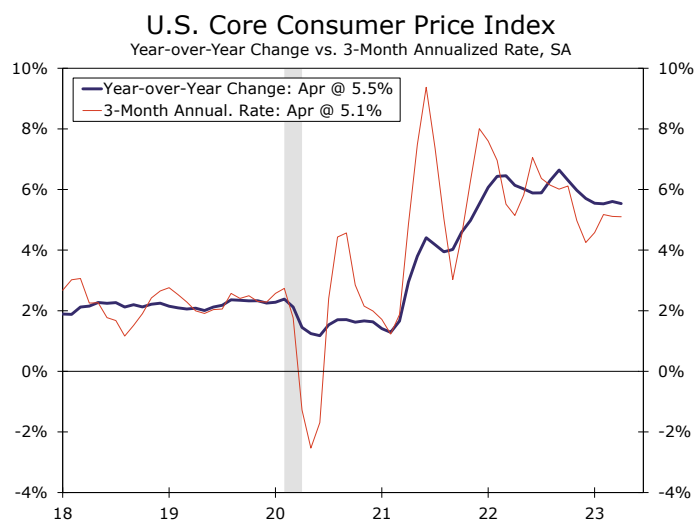
Source: U.S. Department of Labor and Wells Fargo Economics

Excluding food and energy, the inflation slowdown in recent months has been more gradual. Core goods prices increased 0.6% in April, the biggest increase since May 2022. Used vehicle prices, which have been one of the biggest disinflationary forces over the past year, jumped a sizable 4.4% in April. This was the biggest monthly increase in nearly two years for used auto prices. Excluding used autos, the core goods inflation data were not nearly as hot. New vehicles prices fell a modest 0.2%, and household furnishings and supplies (think appliances and furniture) prices declined 0.4%, the biggest decline since January 2021.

April also saw some cooling in travel services inflation. Prices for plane tickets and lodging away from home have surged in recent months, but April saw price declines for these two consumer services of 2.6% and 3.0%, respectively. Falling travel services prices helped to restrain the CPI equivalent of the Fed's now closely watched "super core" indicator, which we define as core services less owners' equivalent rents (OER) and primary rent. This measure rose just 0.1% in April, the smallest gain since July 2022. Rents and OER grew 0.6% and 0.5%, respectively, which marks a bit of a bounce back from March's softer reading but still suggests primary shelter inflation is beginning to rollover. That said, it was not universally good news for core services inflation. Recreation services prices rose a strong 0.7% in the month, and other personal services jumped by an even stronger 1.5% in April.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Through the month-to-month noise, there continue to be some positive signs on the inflation front. Slowing food inflation and normalizing energy prices have offered consumers some relief from the most painful parts of the price surge seen over the past couple of years. Excluding the jump in used auto prices, core goods prices were roughly flat in April, a potential sign that core goods inflation will keep cooling amid normalizing supply chains and softening factory sector activity. The much anticipated slowdown in shelter inflation appears to be drawing nearer, and core services inflation excluding primary shelter showed some tentative signs of easing in April.

That said, progress remains incremental rather than rapid. Core CPI inflation has registered annualized rates above 5% over both the past three months and the past 12 months. "Super core" inflation slowed in April, but one print does not make a firmly established trend. Even if inflation trends generally seem to be moving in the right direction, we believe it will take significantly more realized progress before policymakers are ready to declare mission accomplished. Our base case for no additional rate hikes from the FOMC but an extended pause remains intact.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2023 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE