TD Economics

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Data Release: Inflation emerges from hibernation in March

- The Consumer Price Index rose by 0.20% in March from the month prior, or double the gain expected by economists. This takes the year-over-year advance up to 1.5% from the 1.1% rate last month.
- Core CPI inflation (excluding food and energy) also advanced by 0.20% on a monthly basis, and 1.7% from the year prior. Both measures also surpassed expectations.
- The increase in the headline index was broad based, with food (+0.4%), shelter (+0.3%), medical care (+0.3%) and transportation services (+0.2%) gaining on the month.
- This was somewhat offset by a flat reading on the core goods and a decline in the energy sub-component (-0.1%).

Key Implications

- This morning's report offers further evidence that the U.S. economy may be picking up momentum from its winter chill. While a month worth of data does not a trend make, both the magnitude and the breadth of gains suggest that the U.S. economy will not succumb to the slowdown in price growth that has become increasingly pervasive across many of the world's economies.
- Having said that, U.S. inflation still remains far below where the Fed would like to see it. Due to its different market-basket composition and statistical construction, the CPI tends to run about a quarter to half-point ahead of the PCE inflation – a measure preferred by the Fed – putting the 1.5% y/y nearly 1 percentage points below the Fed's implicit target for this measure.
- The report will likely provide some comfort to the FOMC members who have been vocal about the potential pervasiveness of low inflation. It should also allow the Fed to continue to taper its bond-buying program at a measured pace, with QE likely to end in October or December of this year.

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