

# Making **Sense**

### **April's Consumer Price Index:**

### Modest Inflation Improvement Is a Step in Right Direction

#### In Brief:

# Takeaways from April's consumer price index:

- Headline inflation (year-overyear): 3.4%
- Core inflation (year-overyear): 3.6%

## What does it mean for you?

- Inflation remains stubbornly elevated.
- Today's report led markets to believe the Fed will cut rates later this year.

#### What to watch:

- Commentary from the Fed about the interest rate outlook during its next meeting on June 12<sup>th</sup>, which also includes updated Summary of Economic Projections.
- Incoming data over the next week on corporate earnings and consumer spending.
- Stay informed and submit your questions at <u>FirstCitizens.com/Market-</u> Update.



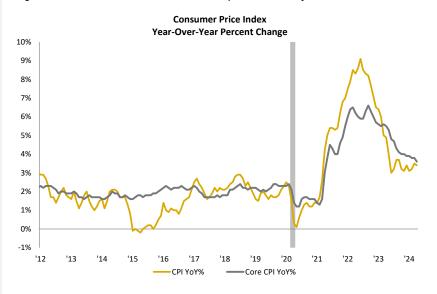
Today's inflation data was better than expected—a reversal of the hotter-than-expected pattern seen in recent months. While one month does not make a trend, we are pleased to see modest improvement. Today's report leaves the door open for the Federal Reserve to cut the federal funds rate by the end of September if the next few inflation reports show further improvement.

Over the last several weeks, the Federal Reserve has reiterated the need to see considerable progress toward the 2% inflation goal before it cuts interest rates. Investors saw today's data as moving the needle in the right direction as bond yields fell immediately after the report.

What's driving inflation? Recent trends have been mixed depending on the category. So far this year, food price inflation has moderated, and core goods prices (excluding food and energy) have outright declined. The story around services inflation has been more complicated. Car insurance prices have risen substantially, and shelter inflation—including rents—is currently proving sticky.

The good news in today's report: inflation does not appear to be accelerating. However, inflation is still too high, and the Fed bases decisions on trends rather than a single report. Investors and policymakers will likely need to see further improvement before gaining confidence that economic conditions warrant interest-rate cuts.

Figure 1: Consumer Price Index Inflation Improves Modestly



Source: BLS, Bloomberg



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