

Economic Analysis

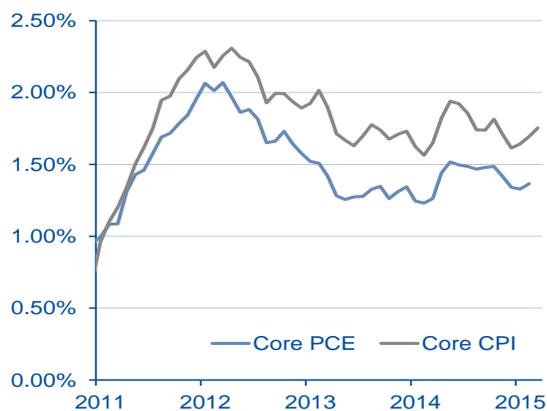
March CPI Moves in Support of Fed Liftoff in 3Q15

Kim Fraser Chase

- **Headline CPI rose 0.2% in March but remained negative YoY for the third straight month**
- **Core CPI also increased 0.2% and accelerated to 1.8% on a YoY basis**
- **Forward progress for core inflation offsets burden of weak jobs report in March**

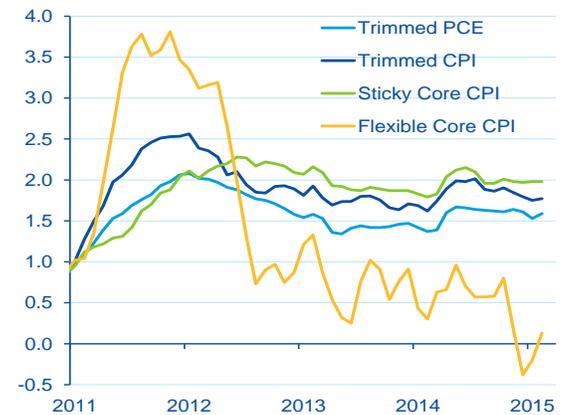
CPI inflation in March was a welcome surprise, with both headline and core prices increasing 0.2% for the month. Although headline inflation remained in negative YoY territory at -0.02%, core inflation accelerated for the third consecutive month to 1.8%. This is good news for the Fed as they search for confidence that inflation will slowly move towards their target in the medium run. The key will be to wait for PCE inflation to make sure that it moves in the same direction, which has been the case in the past few months but was less common throughout most of last year. Other measures of inflation, such as the trimmed-mean and sticky price indices, continue to move in the direction supportive of a federal funds rate hike in the near future. However, the core flexible CPI, which is a weighted measure of goods that change price relatively frequently, holds near zero compared to 12 months ago, suggesting that some core commodity prices are still weighing on the core inflation rate. Given that the Fed will be monitoring any and all measures of inflation to ensure complete confidence in their outlook, we expect that they will want to wait for a few more months of data before making any major decisions. Therefore, we continue to expect the first rate hike in September, once they have received both inflation and employment data through August.

Chart 1
Core CPI and PCE Inflation (YoY % Change)



Source: BEA, BLS, & BBVA Research

Chart 2
Alternative Measures of CPI (YoY % Change)



Source: BLS, FRB Atlanta, FRB Cleveland, & BBVA Research

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.