

U.S. Inflation Flash

March CPI in line with expectations

Consumer price inflation matched consensus expectations in March, increasing 0.3% and 0.2% at the headline and core levels, respectively. On a YoY basis, headline inflation dropped from 2.9% in February to 2.7% in March, while core increased slightly from 2.2% to 2.3%.

- **Energy prices drive headline inflation for third consecutive month**

Energy prices increased 0.9% in March following a 3.2% jump in February and a 0.2% rise in January. As expected, gasoline prices led the energy components, increasing 1.7% but at a much slower pace compared to the 6.0% increase in the previous month. While the risk of a further oil price shock has not yet disappeared, the data do support our expectations for easing energy prices in the coming months. Food inflation also helped lift the headline figure, up 0.2% following no change in February.

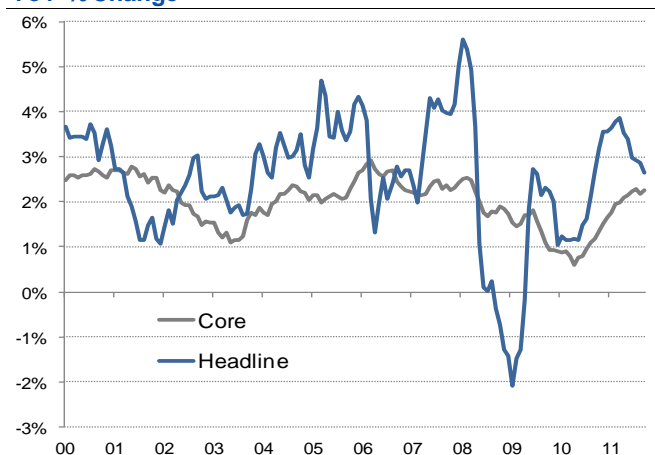
- **Despite elevated headline inflation, pass-through to core prices is minimal**

Among the core components, used cars and trucks increased 1.3%, followed by apparel (0.5%) and medical care services (0.3%). Rent prices, which have been somewhat of a concern, have held steady at 0.2% for the past 5 months. Stable inflation expectations and elevated slack will limit second-round effects.

- **Inflation outlook remains stable**

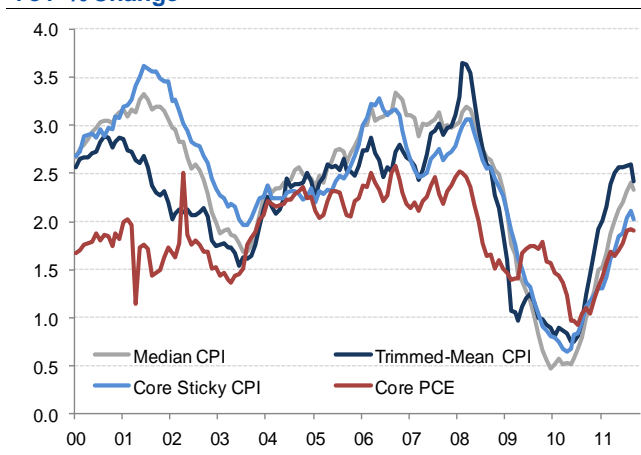
For 2012, our baseline scenario assumes 2.5% headline CPI. We have not revised our core inflation forecast and it remains at 1.9% for the year, although with some upside risk. The recent increase in inflation has limited the Fed's efforts to support the economy. However, unseasonably warm weather and the decline in natural gas prices appear to have limited the impact of high oil prices on headline inflation. The FOMC is steadfast in their assertion that they expect inflation to be around their mandate and that the recent increase in inflation is temporary. Looking ahead to the Fed's meeting in April, we do not expect that the latest inflation data will cause any immediate policy actions.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Alternative Measures of Consumer Prices
YoY % Change



Source: Federal Reserve, BEA, & BBVA Research

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