

U.S. Inflation Flash

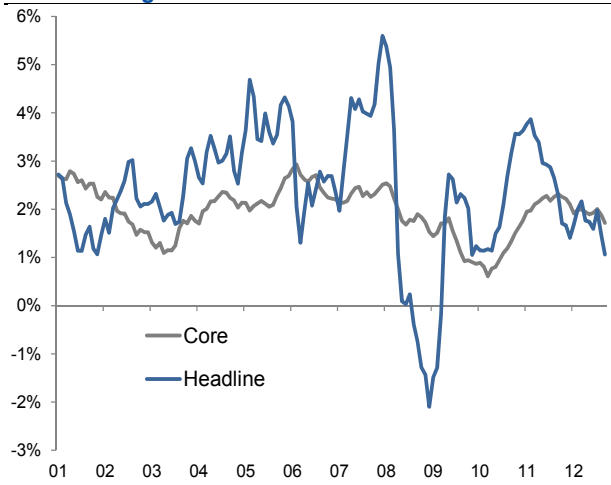
Headline Inflation Falls as Energy Prices Slump in April

- **Headline inflation declined for the second straight, down 0.4%**
- **Gasoline prices declined by 8.1%, its fastest downward move since late 2008**
- **Core prices rose a modest 0.1% but YoY remain below the Fed's target rate**

Headline consumer prices declined more than anticipated in April due to a sharp decline in the energy index for the second month in a row. Falling 0.4%, the headline consumer price index (CPI) was heavily influenced, as it has been as of late, not by food prices but energy. As supplies of oil continue to grow, WTI crude and other major oil indices have seen a rapid decline. This has translated into a heavy precipitous downturn in the energy component of the CPI index, down 4.3% in April. Since the recession, this is the largest decline in the energy index and suggests that the component will continue to disrupt the headline CPI figure as long as oil prices fluctuate. Gas prices dropped a significant 8.1% following a 4.4% decline in March. As for the remaining headline component, food prices rose 0.2% as both grain and meat prices increase despite a significant decline in the price of fruits and vegetables.

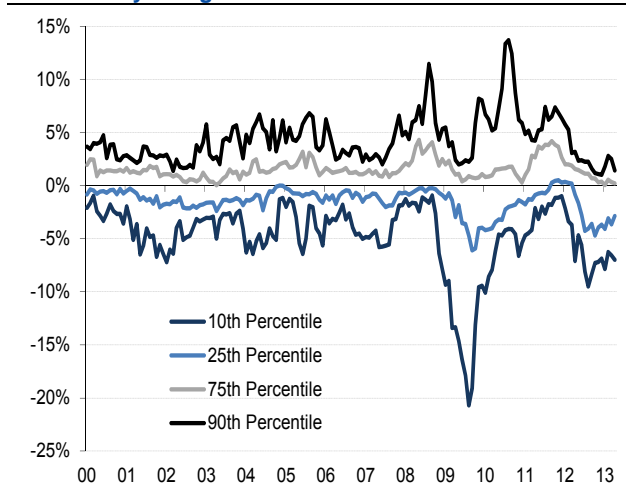
Core inflation remained stable, rising by 0.1% in April as they had in March. As far as commodities were concerned, new & used vehicle prices rose as did medical care commodities and tobacco while apparel prices declined slightly. The services index, which has been driven upwards consistently by shelter prices, rose 0.1% as shelter prices rose 0.2% while medical and transportation services costs declined. This would primarily be due to the combined effects of the housing market and lower fuel costs. On an annual basis, however, headline and core inflationary rates remain well below the Fed's target rate which both supports their policy action but also could invoke some discussion as to whether this trend could continue. Overall, energy prices remain the exclusive driver of the headline figure and the core rate will continue to be heavily influenced by rising home prices.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
12M YoY Relative Consumer Price Distribution
YoY% less year-ago YoY%



Source: Bureau of Labor Statistics & BBVA Research

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