U.S. Inflation Flash

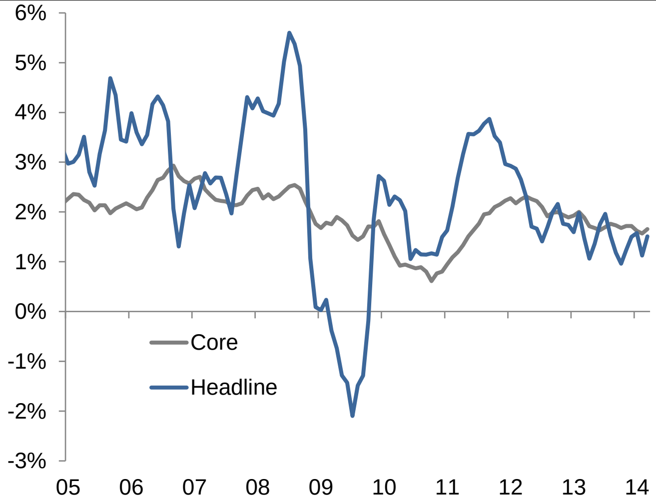
Headline and Core Inflation Tick Up as Expected in March

- **Both headline and core CPI increased 0.2% in March, the fastest monthly pace in 2014**
- **Food prices outpaced growth in other components, partially due to the drought**
- **Sluggish inflation unlikely to sway Fed policy through the end of the year**

The headline consumer price index increased 0.2% in March, slightly accelerating after posting back-to-back months of 0.1% growth. On a positive note, YoY headline inflation growth bumped up to 1.5% after falling to a hazardous 1.1% low in February which supported concerns about depressed inflation and potential deflation. The acceleration was once again led by a spike in food prices, which jumped 0.4% for the second consecutive month. The Department of Agriculture expects food prices to increase 2.5-3.5% this year barring any severe weather, and cites the ongoing drought in California as a reason for the spike in costs. With regards to the economy, if food prices outpace personal income growth this year, consumers may be forced to spend a larger portion of their budget on groceries and have less money to spend elsewhere, which could weaken demand in other areas and dampen overall consumer spending. Energy services spiked 2.6% MoM behind a 7.5% jump in utility gas services; however, a 2.0% decline in energy commodity prices offset the increase, and the energy component finished down 0.1%. Most other components of the report were insignificantly changed and trended as expected.

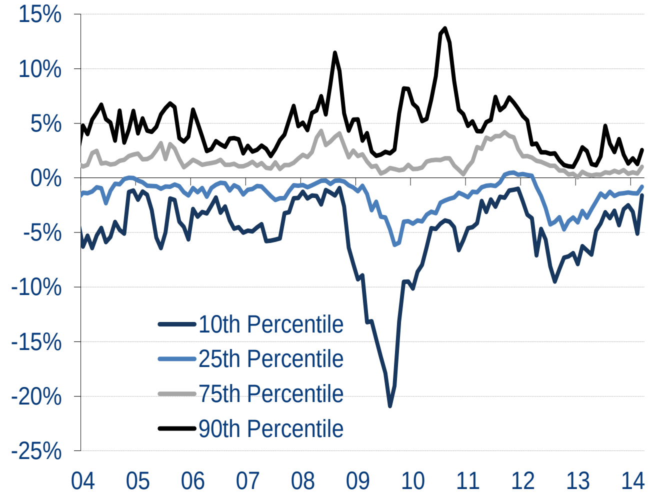
On a yearly basis, core inflation ticked up to 1.7% YoY, still significantly below the 2.5% Fed target for the CPI figure. Though the Fed tends to focus on the PCE index, the bump in CPI will likely ease concerns about falling inflation. We do not believe there will be an adjustment in monetary policy and expect the Fed to gradually taper through the end of this year. Overall, inflation is unlikely to accelerate significantly in the coming months, and we maintain our forecast for low and stable inflation in 2014.

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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