

## US core inflation remains stable despite surging apparel costs

We think today's CPI data could mark the end of the prolonged period of sub-2% core CPI



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With markets increasingly on the lookout for signs of positive US inflation surprises, today's consumer price data is unlikely to make too many waves. The key takeaway is that core inflation remained unchanged at 1.8% year-on-year, although there is still quite a lot of noise beneath the surface. For instance, apparel costs – a key factor behind last month's positive inflation surprise – put in another massive monthly growth performance (1.5%), reversing the fairly noticeable decline we saw at the end of last year.

Pinning down the exact cause of this is fairly tricky, particularly at a time of intensifying competition within the clothing sector. For the most part, we suspect this is largely noise.

Underlying volatility aside, we think today's data could mark the end of the prolonged period of sub-2% core CPI. In the March set of data (released next month), a distortion related to cell phone data pricing will drop out of the annual comparison. Having been chopping 0.2-0.3 percentage points off most inflation measures, that should see core CPI move back up to 2%, and the headline rate move closer to 2.5/2.6% YoY.

Rising housing/medical costs also look set to add upward momentum to overall inflation over coming months, whilst the weaker dollar looks set to provide a boost too – particularly as, in an environment of strong consumer demand, firms have the pricing power to pass higher costs onto shoppers.

This is a key reason why we expect four rate hikes from the Fed this year.

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