Headline CPI: April 2022

- Headline CPI: 8.3% y/y, down from 8.5% y/y in March, and slightly above consensus expectations of 8.1%.
- CPI decelerated to 6.2% in April from 6.5% in March, which was the highest level since January 1991.
- Inflation pressures, which centered around durable goods during the early phase of "COVID" inflation, have since shifted to services and commodity prices, which by definition, are likely to be more "enduring" and "more" detrimental to US GDP growth.

Looking "Under the Hood":

- As wages continue to rise at the fastest pace in two decades, they are having the largest component of CPI (41%), rose for the third straight month, with owner equivalent rent of shelter up 4.8% y/y, the highest level since February 1991. Rental rates and hotel prices also increased.
- Food prices are up over 9% y/y, driven by Ukraine, with grains up nearly 11%. Shelter, the largest component of CPI, rose by 4.8% y/y in April, which will continue to put pressure on US economic growth.
- Core goods inflation is all items less food, energy commodities and services.

Inflation pressures, which centered around durable goods during the early phase of "COVID" inflation to "Conflict" inflation, a transition that has implications for the durability and strength of future US GDP growth. The much of the last few years, "COVID" inflation was driven by heighten demand and supply chain bottlenecks, which has driven inflation up 7.5% y/y in March, which will likely moderate as demand shifts away from "durable goods" due to strong pent vaccination rates and a strong rebound in "services" away from home and "experiences." After decades of disinflation, the US economy is pivoting from trade-driven inflation to "services" inflation - a shift that will likely endure and increase inflation pressures for the foreseeable future.

US average hourly earnings, y/y

- In April, US average hourly earnings moderated to 4.5% y/y from 5.5% in March. Despite wage growth remaining elevated, this is below expectations, and more in line with projections for "service" inflation.

Core goods and services inflation, y/y

- Core goods inflation was centered around increased demand for "durable goods", which by definition, are likely to be more "enduring" and "more" detrimental to US GDP growth.

CPI inflation by sector (y/y)

- Inflation pressures have shifted from goods to services over the last year, driven by increased demand for "experience" inflation. While inflation pressures around "durable goods" moderated in April, inflation pressures around "services" have remained elevated.

Looking closely at the composition of inflation in April, price pressures have clearly shifted to services and commodities, with the "services" sector rising by 3.6% y/y, following an 18.3% surge in March. Oil and natural gas, by comparison, were up 2% in April, as energy prices moderated following an 18.3% surge in March. Oil and natural gas, by comparison, were up 2% in April, as energy prices moderated.

While the composition of inflation has shifted in recent months from goods to services and commodities, the modest moderation in April's inflation numbers benefitted from a 6.1% m/m retreat in gasoline prices, following an 18.3% surge in March. Oil and natural gas, by comparison, were up 2% in April, as energy prices moderated.

Real wage inflation:

- Real wage inflation, which centened around second quarter of 2022, has decelerated in recent months. With inflation pressures shifting to "services," wage pressures are likely to moderate and "endure" over time.

Inflation "price" shock:

- Since the price of shelter goods moderated in April, the "price" shock of inflation pressures is now centered around "services." Inflation pressures around "services," driven by increased demand for "experience" inflation, have now shifted to "services," which are likely to endure and increase inflation pressures for the foreseeable future.