

# Data Insight | US

## CPI – April 2021

### Economist

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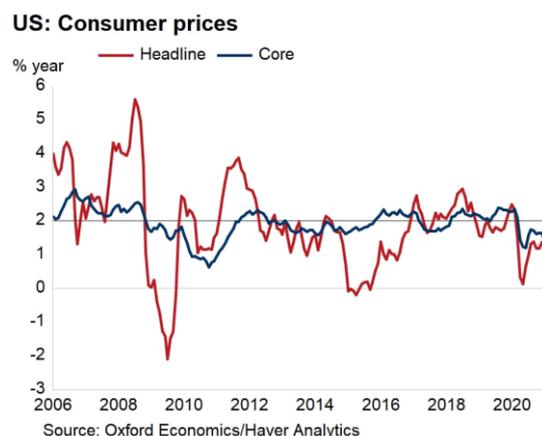
- Well exceeding expectations, headline CPI jumped 0.8% in April, while core CPI surged 0.9% - the largest rise since April 1982. A record monthly gain of 10% in used car and truck prices accounted for a third of the headline increase. However, price gains were widespread as unleashed pent-up demand outstrips diminished supply as the economy reopens.
- The robust monthly rise, coupled with strong base effects, boosted the year-on-year headline CPI pace from 2.6% to 4.2% in April, the fastest since September 2008. The annual rate for core CPI accelerated sharply from 1.6% to 3%, the highest since June 1996.
- In the coming months, ongoing base effects, price increases stemming from the reopening of the economy and some pass-through of higher prices from supply chain bottlenecks should prompt higher inflation.
- However, we believe part of the acceleration in inflation will be transitory, and we share the Fed's view that this isn't the start of an upward inflationary spiral. We look for supply/demand imbalances to gradually be resolved and the pace of inflation to gradually cool heading into 2022.

Headline consumer prices rose a much faster-than-forecast 0.8% in April, the largest monthly increase since June 2009. This followed a 0.6% rise in March. At the core level, prices jumped 0.9% - the largest gain since April 1982. A record 10% advance in used car and truck prices led the way, but strong price gains were recorded across-the-board as the outburst of pent-up demand is greatly exceeding constrained supply.

The heady monthly gains catapulted the year-on-year pace for overall CPI from 2.6% to 4.2%, the fastest since September 2008. The y/y rate for core CPI was propelled from 1.6% to 3%, the highest since June 1996.

The CPI data suggest that overall and core PCE prices rose 0.6% in April. This would lift the annual pace of headline PCE prices by 1.2ppts to 3.5% and boost the core PCE inflation y/y rate by 1.1ppt to 2.9%.

**Figure 1: Consumer prices leap higher amid the economic reopening and base effects**



Headline CPI accelerated to 4.2% y/y in April from 2.6% y/y in March. Core CPI advanced to 3% y/y from 1.6% y/y. In the coming months base effects and the reopening of the economy will continue to place more upward pressure on the CPI.

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In contrast to prior months, energy prices retreated in April, falling 0.1%, as gasoline prices fell 1.4%. This marks the only major category to post a decline, but given the current disruption to the Colonial Pipeline, this is likely to reverse gears and rise again in May. Food prices posted a firm advance of 0.4% on the month, after a 0.1% increase in March. Prices for food at home rose 0.4% and prices for food away from home (NSA) rose 0.3% on the month. However, due to strong base effects – food price soared last April as the pandemic took hold – the annual pace for overall food prices decelerated to 2.4% from 3.5% in March.

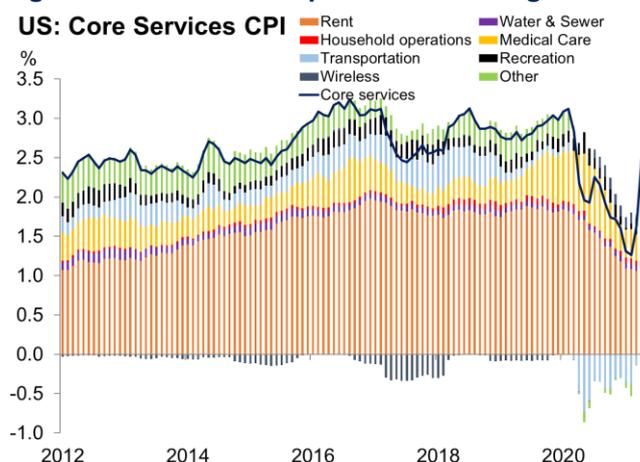
A record 10% jump in used car and truck prices accounted for a third of the rise in overall CPI and 40% of the 0.9% jump in core CPI. The demand for used cars and trucks has revved higher as the supply of new vehicles has been greatly curtailed by the ongoing global shortage of semiconductor chips. From a year ago used vehicle prices are up 21%. New vehicle prices also rose, up 0.5% in April.

However, firm price gains were posted across-the-board as the economy reopens. Shelter, which comprises the largest share of core CPI (42%), rose a strong 0.4%. This was boosted by a record rise of 8.8% in hotel and motel prices, which follows a strong 4.4% rise in March. However, hotel prices remain down 6% from the pre-pandemic level in February 2020. Shelter prices on a yearly basis accelerated for the second time since the pandemic from 1.7% to 2.1%, but it is still below the pre-pandemic pace of 3.3%. Owners' equivalent rent rose a moderate 0.2%, following the same in March. Rental prices also rose a moderate 0.2% on the month. The annual rate for owners' equivalent rent has steadied at 2% for the past four months, remaining a sizeable 1.3 percentage points slower than the 3.3% pre-pandemic pace of February 2020. (Figure 2). Over the course of the next year, rental prices should trend higher, following the lead of rising home prices and renters returning to urban cities.

Notable price gains were also recorded in car and truck rentals (+16.2%), air fares (+10.2%), recreation services (+0.8%), motor vehicle insurance (+2.5%) and household furnishing and supplies (+0.9%).

Core commodity prices advanced a record 2%, lifting the year-on-year pace to 4.4% from 1.7%. Core service prices rose 0.5%, lifting its y/y trend to 2.5% from 1.6% in March. (Figure 3).

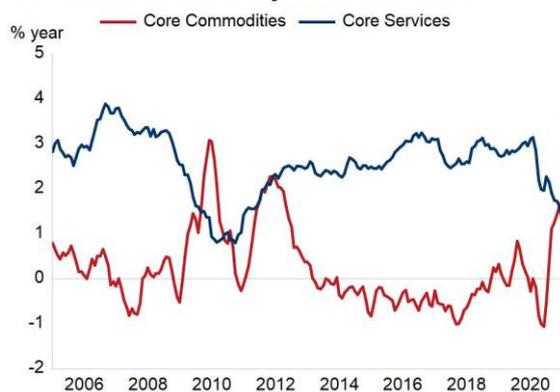
**Figure 2: Core services prices rebounding**



Source: Oxford Economics/Haver Analytics

**Figure 3: Core services inflation turning up while core commodity prices continue to rise sharply**

**US: Core CPI commodity & services inflation**



Source: Oxford Economics/Haver Analytics

**Figure 4: Consumer prices**

CPI, April 2021					
m/m (%)	Jan-21	Feb-21	Mar-21	Apr-21	y/y (%)
<b>CPI, all items</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.8</b>	<b>4.2</b>
Food	0.1	0.2	0.1	0.4	2.4
Energy	3.5	3.9	5.0	-0.1	25.1
<b>Core CPI</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.9</b>	<b>3.0</b>
Rent	0.1	0.2	0.3	0.4	
Water and sewer	0.4	0.4	0.2	0.1	
Medical care	0.5	0.5	0.1	0.0	
Transportation	-0.3	-0.1	1.8	2.9	
Recreation	-1.0	0.6	0.8	0.8	
Internet	-0.4	0.2	1.0	0.4	

Source: Haver, BLS