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Flash Macro Update (05/10/2019)

US CPI inflation is not going anywhere! April CPI inflation figures were released today and they were more or less in line with the consensus. As always, a much lower than expected figure could have sparked fears that the demand is slowing down sharply in the U.S., but apparently it was not the case. On the contrary, a much higher than expected figure could have ignited renewed concerns that FED might be hawkish in its monetary policy again, which also did not happen.

In April, monthly CPI inflation came in at 0.3%, which was just a tad lower than the consensus of +0.4%. With the April figure, annual CPI inflation was 2.0% as of end-April coming up from 1.9% in end-March. It is worth reminding that annual CPI inflation at the end of 2018 was 1.9%. In other words, annual CPI inflation remained at 2.0%, which is not something new for the monetary policy.

On the other hand, monthly core CPI inflation, which excludes food and energy, registered a 0.1% increase compared to the expectations of 0.2%. Annual core CPI inflation inched up from 2.0% in March to 2.1% in April that is in line with the FED's inflation target.

When we look at the details of the inflation reading, we observe that there was one sector/segment which distorted the data. That sector was the energy sector. For instance, gasoline prices, which jumped 6.5% in March, registered a 5.7% increase in April on top of March increase.

Pretty much all other sub-categories posted increases in line with the headline CPI inflation except clothing, air fares and tobacco where there were some mild price cuts. However, we expect an increase in airline fares in the coming months due to increased global energy prices.

The inflation data along with the previously released job data do not suggest that the FED should fine-tune its current monetary policy stance right now. FED employed a 'wait and see' approach and the recent dataflow validates this view. In terms of financial markets, we do not expect the data to have an impact.

It is worth noting that the April PPI data, which was released yesterday, did not provide any shocking news for financial markets. Annual PPI inflation runs at 2.2% suggesting that there was no additional cost-push inflation.

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