

## US CPI Inflation Monitor

# Demand weakness to drive prices lower in the near term

| CORE

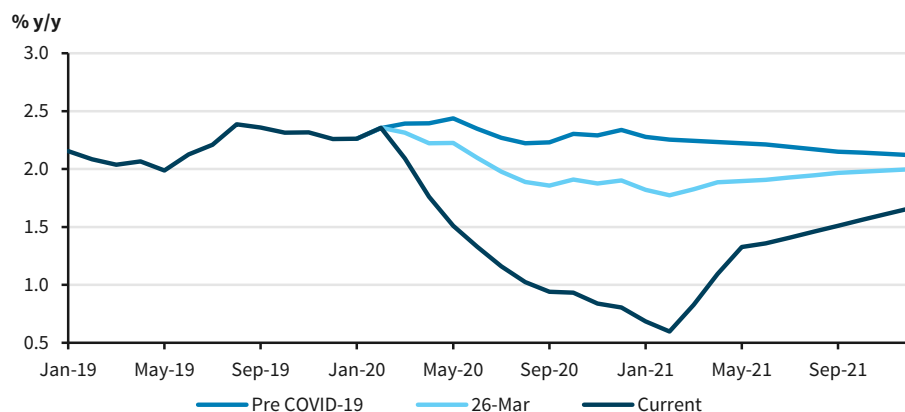
Core CPI fell 0.1% m/m in March, amid significant weakness in some categories we believe were affected by COVID-19 disruptions. We expect this weakness to continue and have revised lower our near-term forecast accordingly.

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- March headline CPI fell 0.4% m/m and +1.5% y/y (Barclays -0.4% and 1.6%) on account of weakness in energy prices and core inflation. Core CPI was down 0.1% m/m to its lowest since January 2010 as a number of core sub-components declined at an unprecedented pace.
- **Taking into account developments in March, we have revised lower our near-term core CPI forecast.** We now expect core CPI to decline by 0.2% m/m in April (from +0.1%) and to fall by 0.1% in May (from +0.1%). In our forecast, we assume further weakness in hotels, airline fares and apparel. In addition, we assume that the strength observed in March in categories such as used cars and recreational services is unlikely to be sustained.
- Our forecast for annual core CPI is 45bp lower than it was before today's revisions. We now expect core to continue decelerating throughout this year and to bottom out in February 2021 at 0.6% y/y. Thereafter we believe that the rebound in activity and improvements in labor markets will start to push inflation higher gradually so that it reaches 1.7% by the end of 2021.
- **Turning to the March report, today's data included unusual volatility in some subcategories, consistent with disruptions to activity from policy measures designed to limit the spread of COVID-19.** In particular, airline fares, hotel prices and apparel prices fell at an unprecedented pace. We believe this was largely driven by the collapse of demand for leisure travel and the closure of non-essential businesses (which included brick-and-mortar apparel retailers). While we had expected declines in these categories, the result was even more negative than we estimated and led to a downside surprise to our core CPI forecast.
- The broad takeaway from the March report remains consistent with the findings in our recent note [COVID-19 and Inflation: Chained to demand, not the supply chain](#) (March 6, 2020). **We concluded that while the global COVID-19 outbreak had caused concerns that supply chain disruptions could lead to higher inflation, we see risks to the downside because of demand disruptions.** In fact, when we evaluate CPI on a component level, we find that the negative effects on demand are likely to outweigh those from supply chains.
- Our PCE model suggests that headline PCE declined 0.3% m/m (+1.3% y/y) and core PCE fell 0.1% m/m (+1.7% y/y). Our model uses CPI, as well as PPI, components to forecast the

front-month PCE.

**FIGURE 1. We have revised our core CPI path significantly lower in recent weeks as we evaluate the fallout from COVID-19 disruptions**



Source: BLS, Haver Analytics, Barclays Research

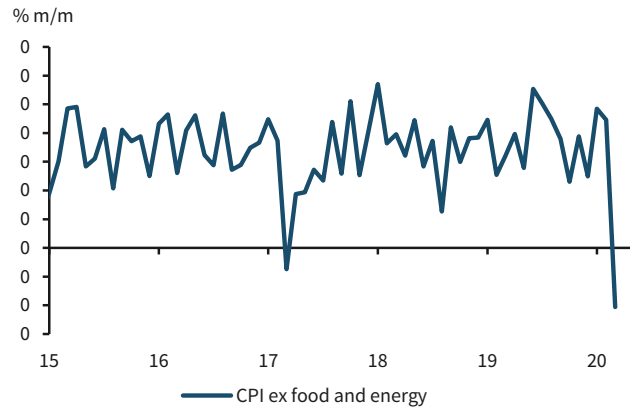
## The CPI in detail

The headline CPI report was broadly as we had expected, falling 0.4% m/m and +1.5% y/y (Barclays -0.4% and 1.6%). The NSA print came in at 258.115 (Barclays 258.195). The March core CPI print was the lowest since January 2010 as a number of core sub-components fell at an unprecedented pace. Core CPI was down by 0.1% m/m in March, against our and consensus expectations of a 0.1% monthly rise.

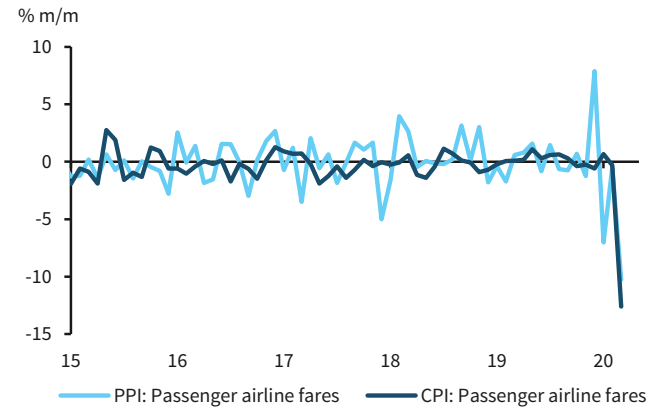
Energy prices fell 10.4% m/m (-5.7% y/y) driven by the sharp decline in gasoline prices. Food prices rose 0.3% m/m and 1.9% y/y amid rises in both food commodities and services (including restaurants). In our March forecast, we had predicted weakness in food prices, especially restaurants. In the report, they held up better than expected, although we would not extrapolate this trend going forward and still see some potential for downside in April and May.

**Core goods CPI fell by 0.3% m/m, which is fairly close to its 20 year low of -0.5%.** Within commodities, apparel prices (with a weight of 2.9%) were the weakest link, falling 2.0% m/m and hitting a new low for this series. Other more modest declines were reported for goods such as household supplies, new cars and recreation. Some of their weakness was offset by increases in used car, education goods, medical drugs and the “other” category.

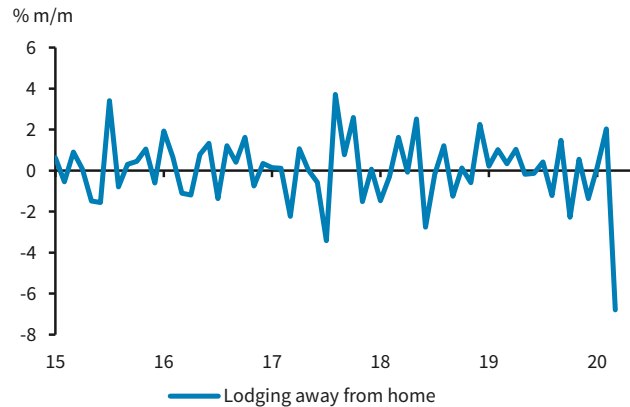
**Core services were flat on the month, but within the category there were historically low prints for lodging away from home (-6.8%) and airline fares (-12.6%).** Elsewhere, rent and OER components held up well, each rising 0.3% m/m. Price increases were also reported for medical, recreation and education services. We find the strength in recreational services puzzling given the early closure of many such outlets as non-essential businesses in March – for instance, prices for health club fees, admissions to theaters and concerts rose 1.1% m/m and accelerated versus February.

**FIGURE 2. Core CPI fell at its fastest pace in 10 years**

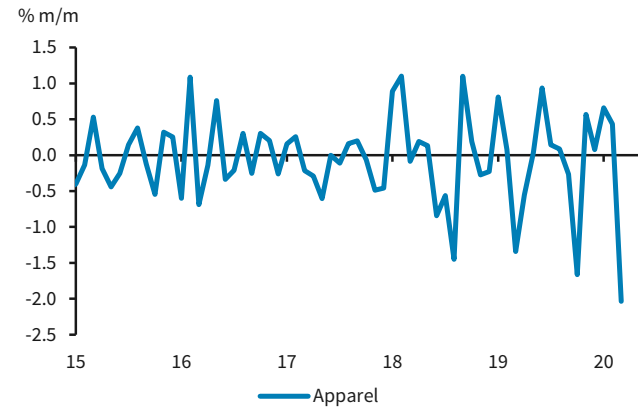
Source: BLS, Haver Analytics, Barclays Research

**FIGURE 3. The weakness was driven by unprecedented declines in airline fares...**

Source: BLS, Haver Analytics, Barclays Research

**FIGURE 4. ... lodging away from home...**

Source: BLS, Haver Analytics, Barclays Research

**FIGURE 5. ... and apparel**

Source: BLS, Haver Analytics, Barclays Research

## Outlook at a glance

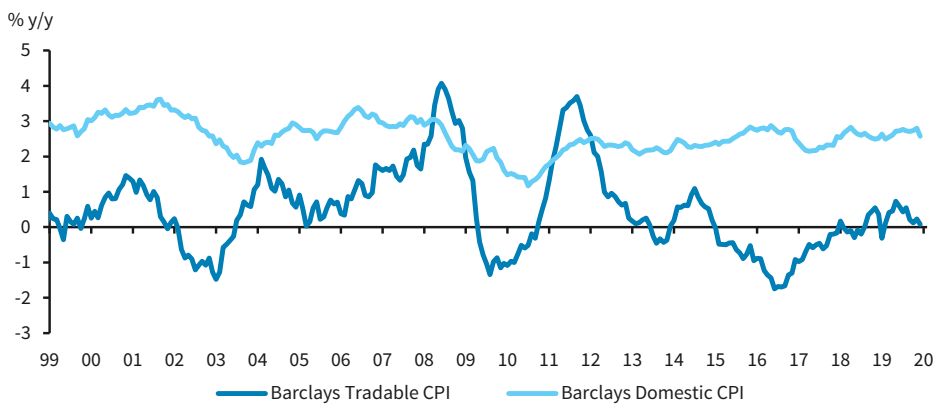
**Our overall inflation forecast is significantly lower than before, mainly driven by the sharp fall in energy prices and some significant downward revisions to core inflation.** We look for April headline CPI to fall 0.77% m/m (+0.4% y/y) and core CPI to fall 0.15% m/m (+1.8% y/y).

Our PCE model suggests that headline PCE declined 0.3% m/m (1.3% y/y) and core PCE fell 0.1% m/m (1.7% y/y) in March. Our model uses CPI, as well as PPI, components to forecast the front-month PCE.

### Domestic and tradable CPI

As part of our inflation coverage, we have constructed an inflation indicator weighted toward expenditure items with a high level of domestic value-added: domestic CPI (Figure 2). This allows us to differentiate, in part, between the portion of inflation driven by domestic supply/demand and inflationary forces driven by the evolution of supply/demand abroad. As a by-product, we also created a tradable CPI measure. Both measures exclude energy ([US Economic Research: Creating Domestic Inflation](#)). Domestic CPI (NSA basis) rose 2.6% y/y in March (2.8% in February), and tradable CPI rose 0.1% y/y (from 0.2% previously).

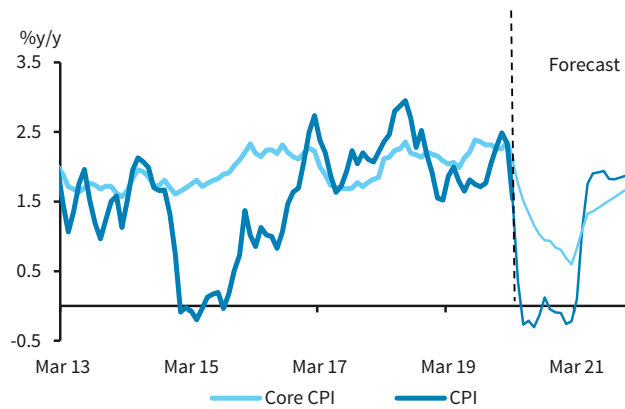
FIGURE 6. Domestic CPI gathers momentum while tradable CPI moderates slightly



Source: Barclays Research

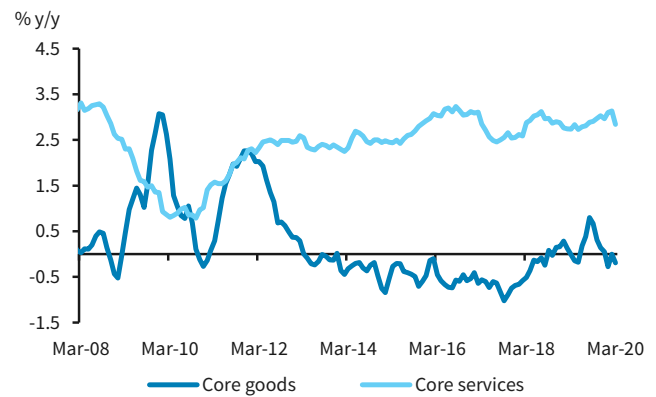
## Key US CPI inflation charts

**FIGURE 7. CPI and Core CPI**



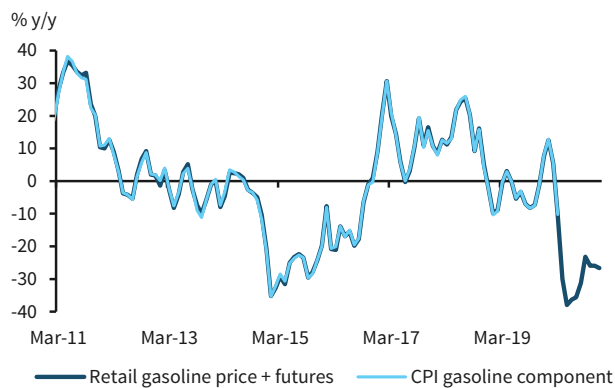
Source: BLS, Barclays Research

**FIGURE 8. Core goods and core services**



Source: BLS, Barclays Research

**FIGURE 9. Gasoline**



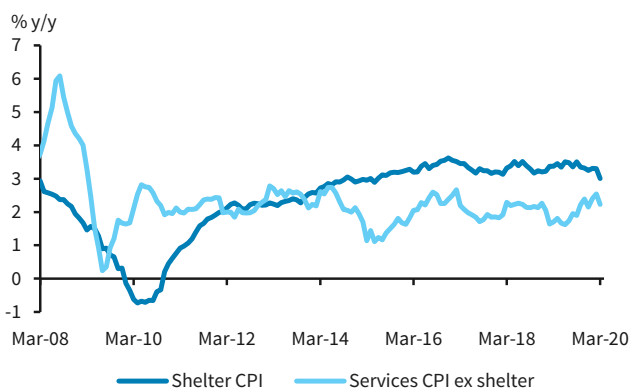
Source: BLS, Barclays Research

**FIGURE 10. Food**



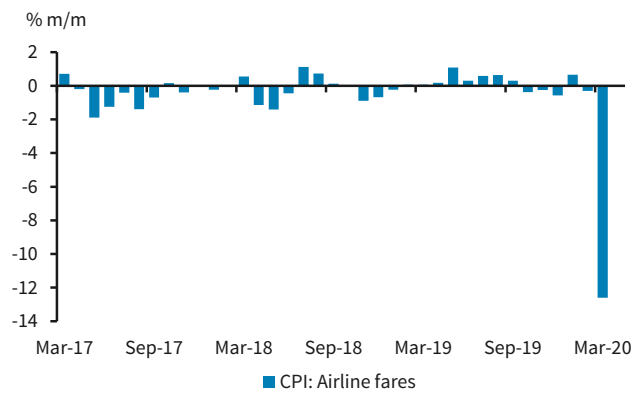
Source: BLS, Barclays Research

**FIGURE 11. Shelter and services ex-shelter CPI**



Source: BLS, Barclays Research

**FIGURE 12. Airline fares**



Source: BLS, Barclays Research

FIGURE 13. Barclays CPI forecast in detail

CPI						Core CPI	
	Index	% m/m, nsa	% m/m, sa	% y/y	% q/q	Index	% y/y
Jun-19	256.1	0.0	0.1	1.6	3.0	263.2	2.1
Jul-19	256.6	0.2	0.3	1.8		263.6	2.2
Aug-19	256.6	0.0	0.1	1.7		264.2	2.4
Sep-19	256.8	0.1	0.1	1.7	1.8	264.5	2.4
Oct-19	257.3	0.2	0.2	1.8		265.1	2.3
Nov-19	257.2	-0.1	0.2	2.1		265.1	2.3
Dec-19	257.0	-0.1	0.2	2.3	2.4	264.9	2.3
Jan-20	258.0	0.4	0.1	2.5		266.0	2.3
Feb-20	258.7	0.3	0.1	2.3		267.3	2.4
<b>Mar-20</b>	<b>258.1</b>	<b>-0.2</b>	<b>-0.4</b>	<b>1.5</b>	<b>1.2</b>	<b>267.3</b>	<b>2.1</b>
<b>Apr-20</b>	<b>256.4</b>	<b>-0.6</b>	<b>-0.8</b>	<b>0.4</b>		<b>267.0</b>	<b>1.8</b>
<b>May-20</b>	<b>255.4</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.3</b>		<b>266.6</b>	<b>1.5</b>
<b>Jun-20</b>	<b>255.6</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.2</b>	<b>-5.1</b>	<b>266.7</b>	<b>1.3</b>
<b>Jul-20</b>	<b>255.8</b>	<b>0.1</b>	<b>0.2</b>	<b>-0.3</b>		<b>266.6</b>	<b>1.2</b>
<b>Aug-20</b>	<b>256.2</b>	<b>0.2</b>	<b>0.2</b>	<b>-0.1</b>		<b>266.9</b>	<b>1.0</b>
<b>Sep-20</b>	<b>257.1</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>	<b>1.4</b>	<b>267.0</b>	<b>0.9</b>
<b>Oct-20</b>	<b>257.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>		<b>267.5</b>	<b>0.9</b>
<b>Nov-20</b>	<b>257.0</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.1</b>		<b>267.3</b>	<b>0.8</b>
<b>Dec-20</b>	<b>256.7</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.1</b>	<b>2.3</b>	<b>267.1</b>	<b>0.8</b>
<b>Jan-21</b>	<b>257.3</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.3</b>		<b>267.8</b>	<b>0.7</b>
<b>Feb-21</b>	<b>258.1</b>	<b>0.3</b>	<b>0.1</b>	<b>-0.2</b>		<b>268.9</b>	<b>0.6</b>
<b>Mar-21</b>	<b>258.4</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.1</b>	<b>1.0</b>	<b>269.5</b>	<b>0.8</b>
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<b>Oct-21</b>	<b>261.9</b>	<b>0.1</b>	<b>0.1</b>	<b>1.8</b>		<b>271.7</b>	<b>1.6</b>
<b>Nov-21</b>	<b>261.7</b>	<b>-0.1</b>	<b>0.2</b>	<b>1.8</b>		<b>271.6</b>	<b>1.6</b>
<b>Dec-21</b>	<b>261.5</b>	<b>-0.1</b>	<b>0.2</b>	<b>1.9</b>	<b>2.1</b>	<b>271.5</b>	<b>1.7</b>

Note: Data are actual through March 2020.

Source: BLS, Haver Analytics, Barclays Research

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