

Economic highlights from the week ending on May 14, 2021

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Rising pricing pressure, which the Fed has been expecting, is starting to show up in the data. In April, the Consumer Price Index (CPI) increased 0.8% on a month-over-month basis. On a year-over-year basis, the CPI was up 4.2% in April versus up 2.6% in March. Core CPI (which excludes food and energy prices) was up 3.0% year-over-year in April versus up 1.6% in March. Within the core index, prices on nearly all major components increased in April. While year-over-year inflation rates were expected to increase as we cycle the deflationary impact of the pandemic last year, the big month-over-month jump in the April CPI was even higher than the high end of the consensus range. Meanwhile, producer pricing pressure is also heating up, with the Producer Price Index (PPI-FD) up 0.6% month-over-month in April, versus the consensus estimate of 0.3%. Import prices were also higher than expected, up 10.6% year-over-year in April versus the consensus estimate of 10.2% and a 7.0% year-over-year increase in March.



Fed policymakers have been clearly telegraphing their expectations for higher inflation. While this week's data suggests that pricing pressures are running somewhat hotter than expected, it is too soon to know if these pressures will be temporary or perpetual. The Fed has made it clear that they are willing to let the economy run hot for some time in order to support an ongoing economic recovery and make substantial progress toward their employment and long-term inflation goals. We expect the Fed to remain on the sidelines and to keep monetary policy highly accommodative until they are confident that the labor market is on track to a full recovery.



Next Week

Empire State Manufacturing, Housing Market Index, Housing Starts & Permits, FOMC Minutes, Philly Fed, Leading Indicators, Existing Home Sales

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rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.