

April 2012 Inflation Watch

An Eye on Prices

April 18, 2012

Next Release: May 15, 2012

Inflation Watch

- Inflation (price-level growth) is important for REALTORS® because it can lead to shifts in interest rate policy by the Federal Open Market Committee (FOMC).
- Generally, the FOMC lowers interest rates to stimulate the economy. However, rates that are too low may lead to inflation. To combat inflation, the central bank increases interest rates but this policy may dampen economic growth.
- For example, the FOMC has extended its commitment to keeping rates low through late 2014 to help shore up economic activity, but this commitment comes with its own set of risks.

Inflation Watch

- During the recent financial crisis, fears of deflation (price-level decline) were rampant. (Deflation caused a downward spiral of prices that destroyed the economy in the Great Depression.)
- With financial markets somewhat stable, some fear that inflation is around the corner. Stagflation, another unpleasant economic condition characterized by high unemployment and high inflation, is also a possibility.
- In stagflation, it is difficult for the central bank to raise interest rates to combat inflation due fear of further job market deterioration if demand is hurt by the increased interest rates.

April 2012 Highlights

- Monthly consumer prices increased substantially for goods such as of lodging, meats, transportation and medical care. This pulled up the headline price measure 0.3 percent in March while producer prices were flat.
- Prices are higher than a year ago—by 2.7 percent for consumers and 2.8 percent for producers—less so than they were in February.
- Core consumer prices (those excluding food and energy) are just outside the bound of the target range of 1 to 2 percent.
- In part because prices are still within these bounds, the Fed has committed to continue the low-rate policy to late 2014 as noted in the January statement.
- The February easing in monthly price growth was a good sign that was somewhat offset by March data, but monthly fluctuations are expected and are unlikely to lead to a change in policy.
- The following tables summarize key figures while the graphs show increasing and decreasing prices for a few items.

Consumer and Producer Price Change Overview

Indicator	Source and definition	Monthly Change	Annual Change	Concern ?
Consumer Price Index (CPI)	BLS, Price change of consumer goods and services	0.3%	2.7%	Maybe
CPI Core	BLS, CPI less food and energy	0.2%	2.3%	Maybe
CPI Housing (owners' equivalent rent)	BLS, CPI housing component (primary residence)	0.2%	2.0%	No
Producer Price Index (PPI)	BLS, Price changes domestic producers receive for their output	0.0%	2.8%	No
PPI Core	BLS, PPI less food and energy	0.3%	2.9%	No
PPI Crude Materials	BLS, PPI crude / raw materials	-2.5%	0.1%	No
PPI Residential Construction	BLS, PPI BRES	1.1%	3.8%	Yes
Gold	WSJ, Price per ounce of gold	-3.8%	18.2%	Yes
West Texas Crude Oil	WSJ, Price per barrel of oil	3.9%	3.2%	Maybe
Import Prices	BLS, Trade-weighted index measures prices of imported goods & services	1.3%	3.4%	Maybe
Construction Cost Index	Census, constant quality, new single family homes under construction	-0.7%	-0.6%	No

Looking at the CPI in More Depth?

Indicator	Change from previous month	Change from previous year	Concern?
Consumer Price Index (CPI)	0.3%	2.7%	Maybe
Lodging away from home	0.3%	3.5%	Maybe
Food at home	0.1%	3.6%	Maybe
Meats, poultry, fish and eggs	0.8%	5.3%	Yes
Housing fuels and utilities	-0.1%	0.0%	No
Household furnishings & operations	-0.2%	1.1%	No
Transportation	0.9%	4.7%	Yes
Medical care	0.3%	3.5%	Maybe
Hospital and related services	0.2%	4.8%	Maybe
Education	0.3%	4.3%	Maybe
Airline fare	0.4%	-0.8%	No
Personal Computers and peripheral equipment	-0.9%	-11.1%	No
Apparel	0.5%	4.9%	Maybe

CPI-U: All Items Less Food and Energy
% Change - Year to Year SA, 1982-84=100

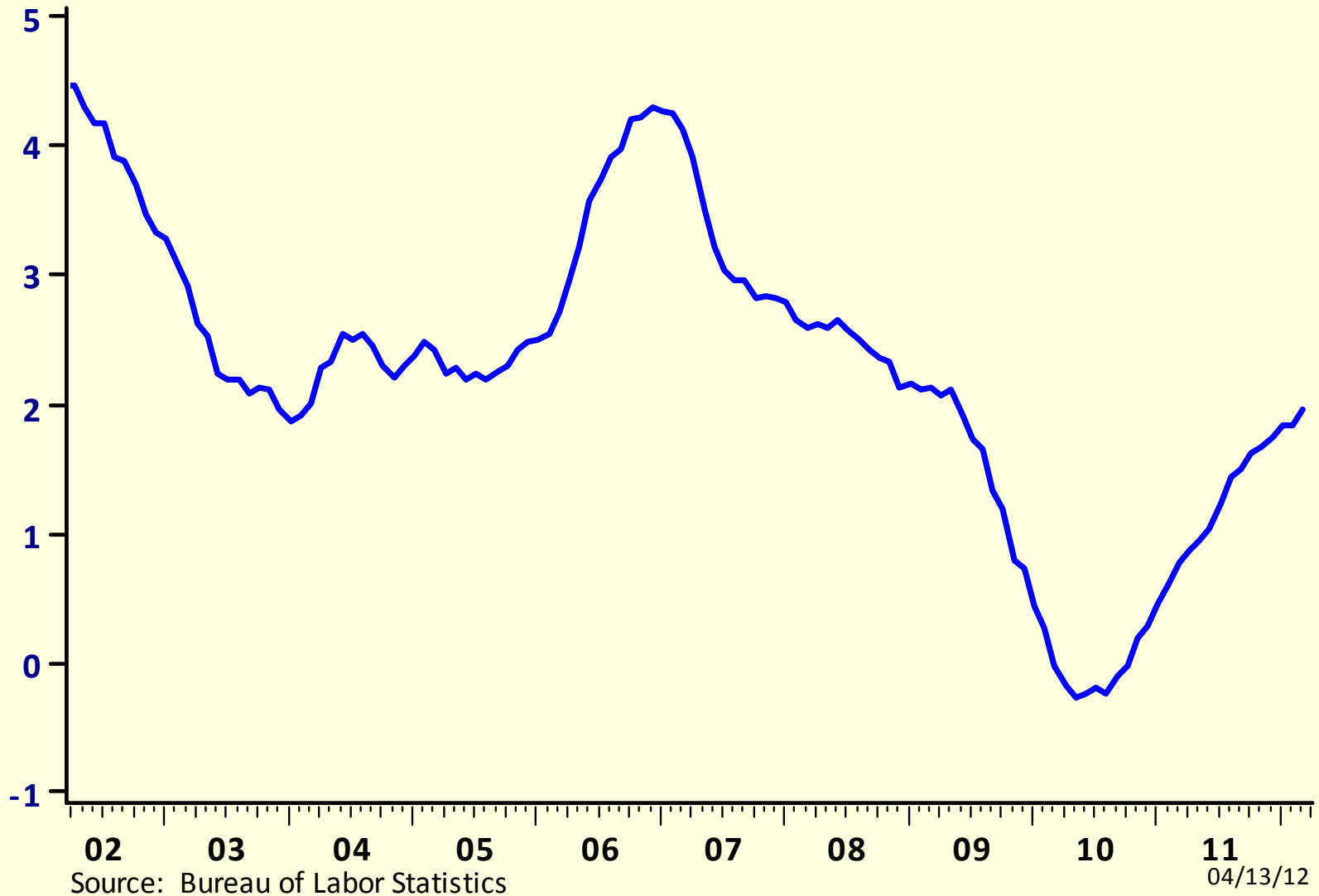
CPI-U: All Items
% Change - Year to Year SA, 1982-84=100



Source: Bureau of Labor Statistics

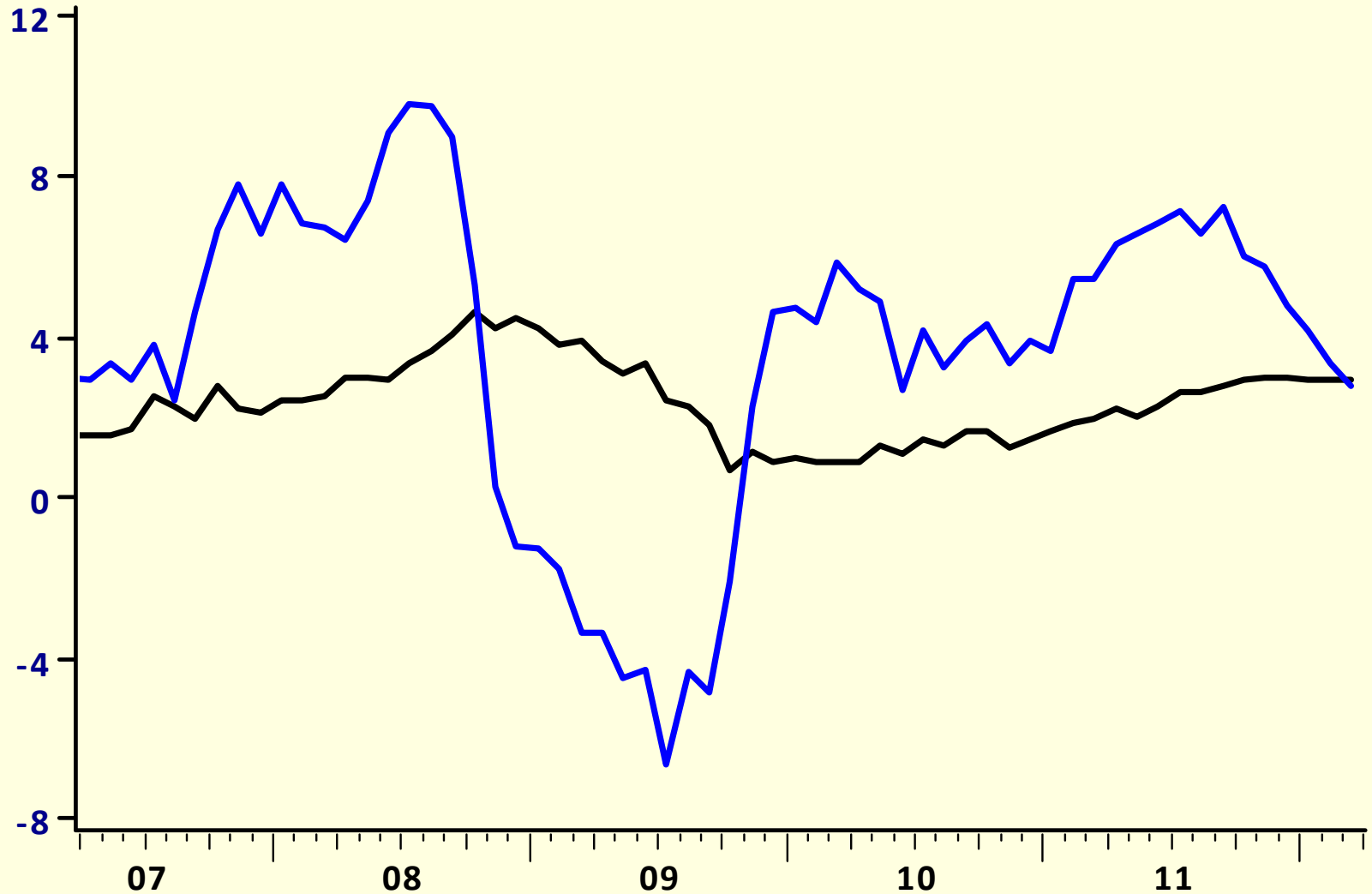
CPI-U: Owners' Equivalent Rent/Primary Residence

% Change - Year to Year SA, Dec-82=100



PPI: Finished Goods
% Change - Year to Year SA, 1982=100

PPI: Finished Goods less Food and Energy
% Change - Year to Year SA, 1982=100

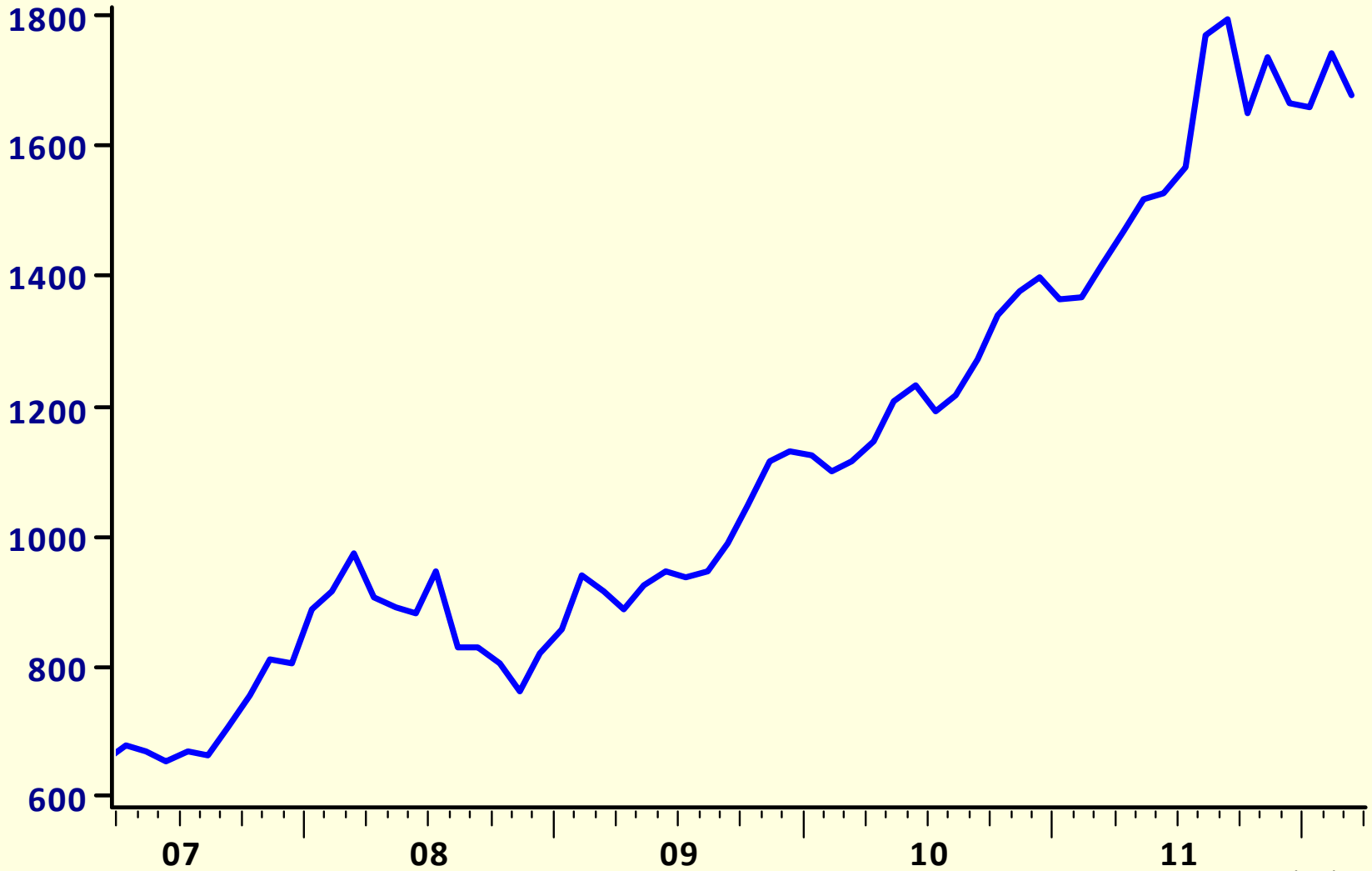


Source: Bureau of Labor Statistics

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Cash Price: Gold Bullion, London Commodity Price, PM Fix

US\$/troy Oz

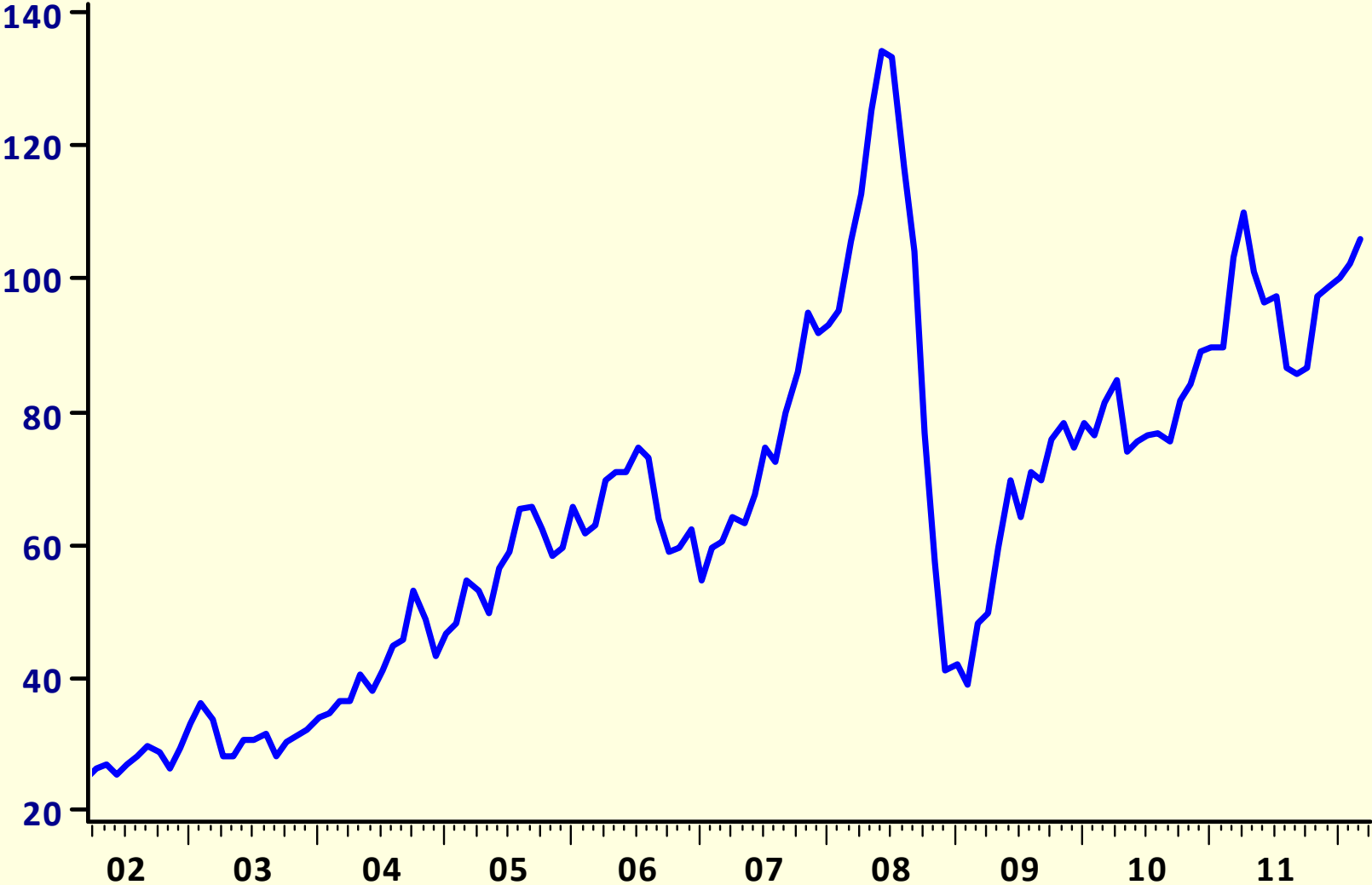


Source: Wall Street Journal

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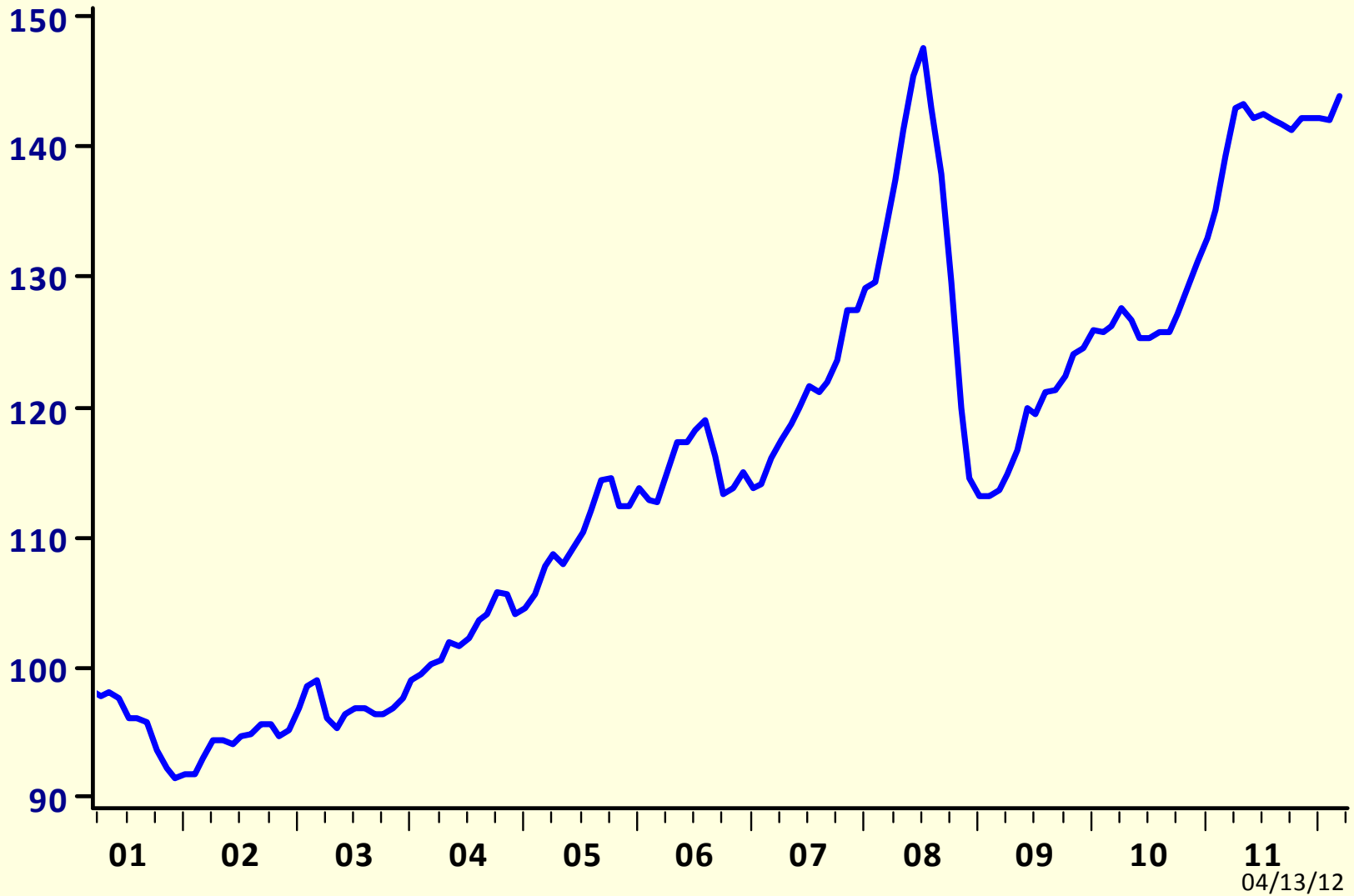
Domestic Spot Oil Price: West Texas Intermediate

\$/Barrel



Import Price Index: All Imports

NSA, 2000=100



← Houses under Construction: Fixed-Weighted Price Index
NSA, 2005=100

NAR Median Sales Price: Total Existing Homes, United States →
\$

