Wholesale Inflation Cools Slightly in April But Remains Hot

Despite a modest dip in the rate, prices for most goods continue to rise.

By Tim Smart
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Wholesale prices rose 0.5% in April, or 11% annually, driven by increases in the prices of motor vehicles, the Bureau of Labor Statistics reported on Thursday.

The number was in line with expectations and follows a 1.6% increase in March. The annual rate was slightly below the 11.2% registered a month ago.

The core index, excluding often volatile food and energy costs, increased 0.6% in April, down from 0.9% in March, and 6.9% on an annualized basis.

The producer price index follows the Wednesday release of the consumer price index for April, which showed inflation dipped slightly from March but is still running at an 8.3% annual rate. Declines in the energy component of the index, which could be temporary, were behind the drop along with dips in the cost of clothing and used vehicles.

Neither report will likely deter the Federal Reserve in its determination to raise interest rates to curb inflation. The central bank raised rates half a percentage point last week and said further hikes would follow. Market interest rates, especially on mortgages, have gone up sharply in recent weeks in anticipation of the Fed's tightening of monetary policy.

In the midst of this, the markets have been extremely choppy with high-flying tech stocks and companies that soared during the pandemic being especially hard hit. Last week, stocks suffered their worst week since 2000.

Meanwhile, the yield on the 10-year Treasury was 2.823% on Thursday, down from the 3% it hit earlier this week.

While the recovery from the coronavirus spurred demand beyond what it could meet, the Russian invasion of Ukraine in late February put further strain on the energy and commodity sectors as the U.S. and other nations imposed sanctions and reduced oil and gas imports.

Most economists believe the Fed will have a hard time getting inflation back to the 2% level seen before the pandemic, but there are some small signs the rise in prices has slowed. And April may well turn out to be the month of "peak inflation" that economists have been hoping for.

"The focus will soon start shifting from where inflation peaked to where it plateaus, and we fear that it will plateau at an uncomfortably high level for the Fed," Seema Shah, chief global strategist at Principal Growth Investors, wrote on Wednesday.

"We expect headline inflation to only fade to 5.5% by year-end," Shah added. "With companies still displaying impressive pricing power, inflation expectations elevated, the labor market red hot and supporting strong wage growth, and shelter inflation still rising, the pressure on the Fed is going to remain intense."

Some observers point to slowing wage inflation, rebuilding of inventories and savvy consumers searching for bargains as common goods rise in price as evidence the economy is adjusting to a new normal, and they are fearful of the Fed being too aggressive.

"We are seeing an extremely dynamic economy at work, where companies as well as consumers are taking steps that will continue to ease inflation pressures in the months ahead," **Bernard Baumohl, chief global economist for the Economic Outlook Group**, wrote on Wednesday.

"The Fed should not rely on some outdated, pre-21st century model that would typically call for more heavy-handed intervention in the credit markets," **Baumohl** added. "If they continue to rely on the old playbook, inflation will certainly drop back – but only because the economy entered a recession and shut down."

Separately on Thursday, the Labor Department reported that the number of Americans filing for first-time unemployment claims rose slightly to 203,000 from the prior week's revised 202,000.

The four-week moving average was 192,750, an increase of 4,250 from the prior week's number.

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