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Market Is Still in the Denial Stage About Inflation

The latest consumer price index confirmed that rising prices have spread from goods to services and indicates a long journey back to stability.

Spread Slight rise underlie stable far peak surge .



Air fares have replaced used-car prices as the excuse of the month, but they can't hide the bigger inflation picture. *Photographer: Frederic J. Brown/AFP/Getty Images*

The latest US inflation report should be a reality check for Wall Street, but many investors are still wearing rose-colored glasses. Bond yields ticked slightly higher Wednesday after the Labor Department reported that consumer prices rose more than forecast last month, but they are still nowhere near reflecting the monetary policy path it may take to rein in inflation.

It's easy to focus on the superficially positive parts of the report, yet the outlook is _____ more complex. The 8.3% increase in the consumer price index in April marked a _____ slowdown from March, bolstering the view that the worst inflation in 40 years has _____ and is beginning its descent. But the figures confirmed that inflation is _____ from goods to service-related prices and indicate a long journey back to what the Federal Reserve may regard as _____ prices.

Wall Street has picked up the bad habit of looking for reasons to explain away inflation — for months it was "just used cars," and this month one could conveniently blame the 33.3% _____ in airline fares for juicing the index — but price increases are now broad-based. Consider the Cleveland Fed's median CPI and 16% trimmed-mean CPI measures, which aim to identify the _____ trend. Both are still _____ year over year.