

Economic Analysis

# Energy and Food Prices Drag Down Headline CPI

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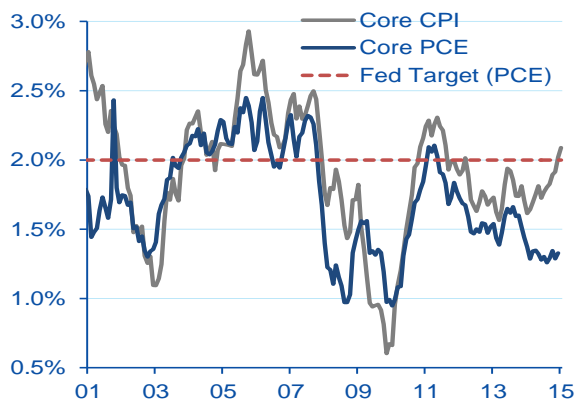
- **Headline CPI was below expectations, falling 0.1% MoM, pulled down by food and energy**
- **Core CPI rose 0.1% MoM, due to softness in the core services index**
- **Core CPI had highest YoY gain since July 2012 (2.1%), but core PCE remains weak**

CPI disappointed to the downside in December, with the headline index declining 0.1% MoM because of the continually dropping cost of energy and a soft increase in the cost of services. Energy costs, particularly fuel oil, were the largest contributor to the decline in CPI, down 2.4% MoM and 12.6% YoY—the lowest YoY decline for energy costs in 2015, given their plunge in December 2014. With oil prices currently hovering at historically low levels, January’s CPI reading could be pulled down even further by energy costs. Within the food index, prices of five out of the six food groups declined in December, with the meats, poultry, fish and eggs index falling 1.4% MoM—its largest decline since August 1979, led primarily by steep drops in the costs of beef and eggs.

After rising 0.3% MoM for three consecutive months and holding up core CPI, the services index was soft in December with a 0.2% MoM increase. Transportation services experienced the largest price increase of any component in the CPI index, with a 0.3% MoM rise, but this comes after a 0.6% rise in November. Within transportation services, the costs of motor vehicle repair and insurance were up, but airfare was down 1.1% MoM, which might have brightened the spirits of holiday travelers last month.

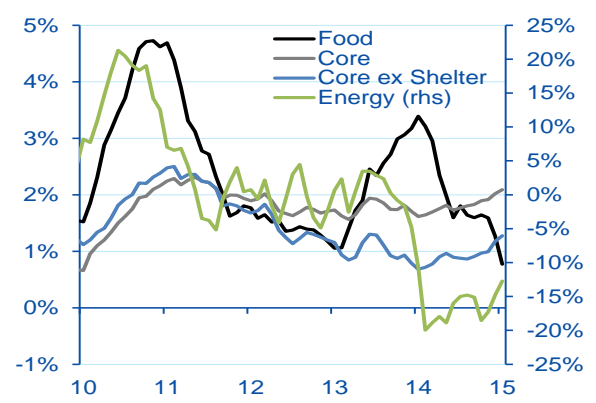
On a YoY level, core CPI experienced its largest gain since July 2012, rising 2.1%. However, the Fed’s preferred inflation metric, the core PCE index, was up only 1.3% YoY in November—remaining below the Fed’s 2% YoY target. Given continued declines in oil prices and December’s soft CPI readings, it could be harder for inflation to edge closer to the Fed’s target in upcoming months.

Chart 1  
Inflation Metrics (YoY % Change)



Source: BLS, BEA & BBVA Research

Chart 2  
Selected CPI Indexes (YoY % Change)



Source: BLS & BBVA Research

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