

US Inflation Watch

Core prices were boosted by shelter prices in Dec...

Javier Amador / David Cervantes

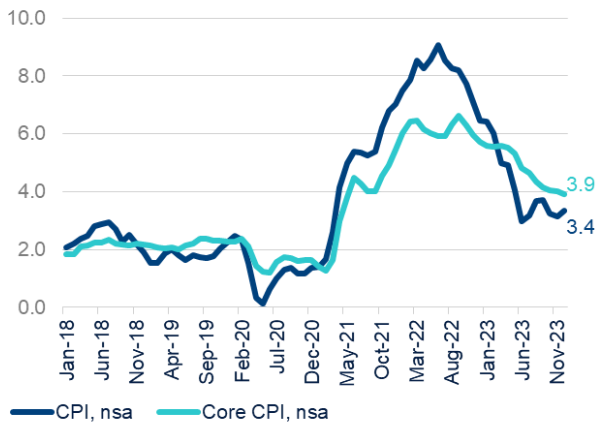
January 17, 2024

... but is set to ease substantially in the coming months

- **Headline inflation ticked up in Dec to 3.4% YoY** (vs expectations of 3.2% and up from 3.1% in Nov) after posting a higher-than-expected 0.3% MoM reading.
- **Core inflation also increased by 0.3% MoM**, boosted by 0.5% MoM increases in both used vehicle prices and shelter inflation (which accounts for 2.1 pp of the CPI variation), **but edged down in annual terms to 3.9% from 4.0% in November**.
- **Core goods excluding used vehicles fell by 0.1% MoM**; durable goods continue to show negative year-on-year variations (-1.2% sa). Used cars and trucks rose strongly (0.5% MoM sa), but its contribution to annual inflation was negative. Regardless of this monthly rebound, the most current data points to a significant decline in this component in the coming months. The above implies that **services and housing components remain the key drivers of inflation**.
- **Rent of shelter continues to post outside increases** (0.4% MoM), **but it's known that rents are set to post much lower increases in coming months**. Shelter is the component with the most significant weight in inflation. Only the owners' equivalent rent component contributed nearly half of inflation (1.6 percentage points). **As this component continues to slow down, it will be a key factor in achieving the Fed's target range faster and accounts for 44% of the core inflation index**. Medical care services also posted a large increase (0.7% sa).
- In the non-core components, gasoline and gas continued to experience a significant decline, with month-on-month variations of (-)5.5% and (-)0.4%, respectively. On the other hand, there were some increases in energy services and household electricity, with month-on-month variations of 0.9% and 1.3%, respectively. Overall, energy saw monthly growth of 0.4%; however, its contribution to the total inflation was negative at (-)0.1 percentage points. **Food was the non-core component with the largest contribution to the overall CPI**, experiencing a year-on-year growth of 2.7%, contributing 0.4 percentage points, with food away from home still increasing at a faster pace than overall inflation.
- **There is a clear slowdown in inflation compared to previous years**, and although inflation has increased in recent months closer to the Fed's goal -in fact, the three-month annualized rate is already below 2.0%-, **we think that December's higher-than-expected print on balance reduces somewhat the odds of a rate cut in March**.

Headline inflation ticked up, but core inflation edged down in December

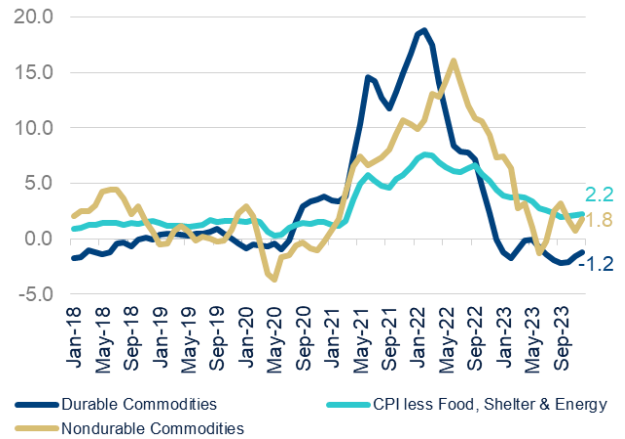
Figure 1. **CONSUMERS PRICE INDEX (CPI)**
(YoY %, NSA)



Source: BBVA Research based on data by Haver Analytics.

Most components are now posting year-on-year increases around or well below the target

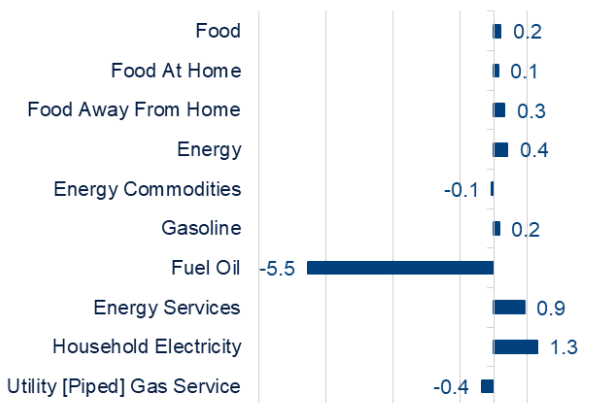
Figure 2. **CPI SELECTED ITEMS**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Non-core inflation continues to show a mixed picture with food away from home easing...

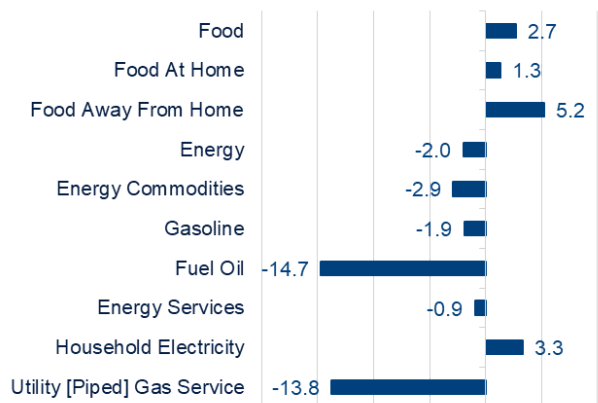
Figure 3. **CPI ALL ITEMS LESS CORE**
(MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

... but still increases at a faster pace than overall inflation

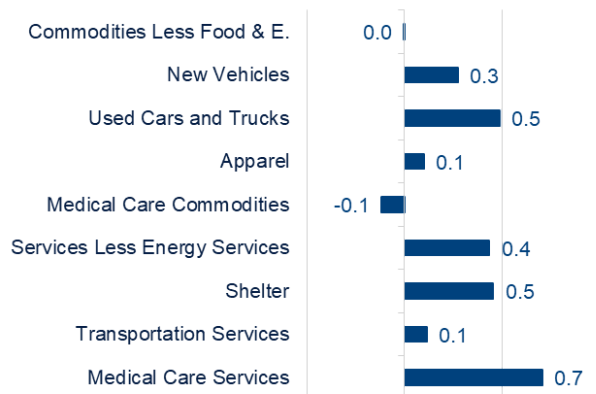
Figure 4. **CPI ALL ITEMS LESS CORE**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Shelter continues to be the main driver of core inflation, but has eased from the 8.3% peak...

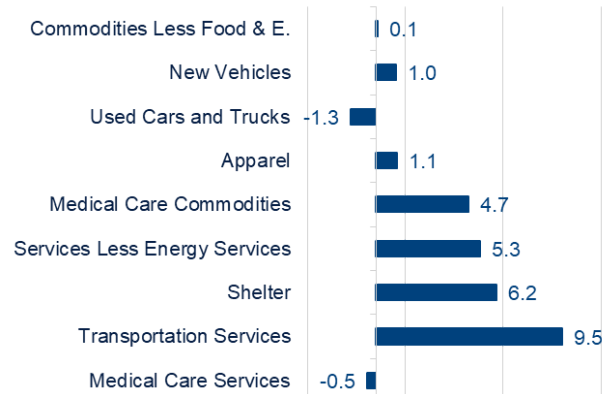
Figure 5. CORE CPI
(MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

... in 2Q23 to 6.2% in Dec, and is set to ease substantially in coming months

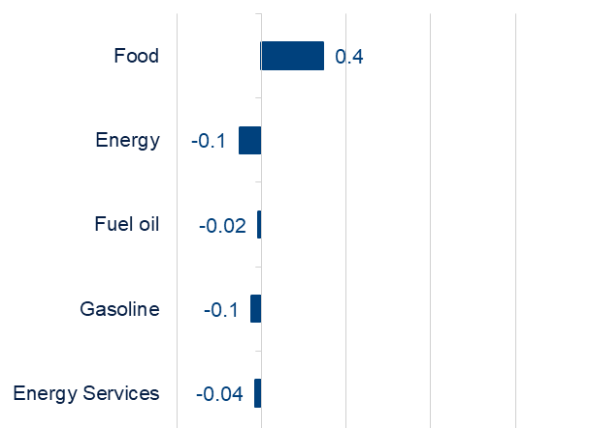
Figure 6. CORE CPI
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Food is still driving up non-core inflation, but food away from increased a more moderate 0.3% MoM sa in December

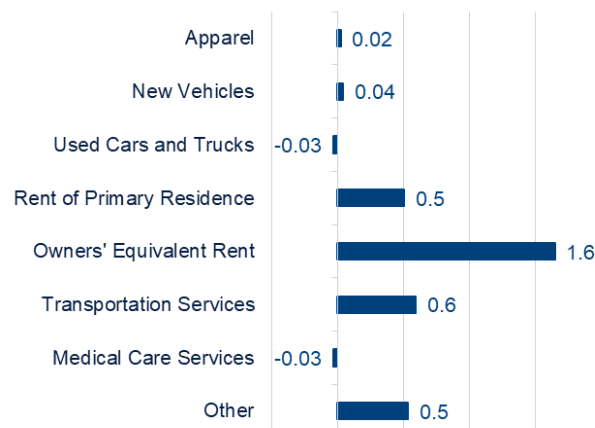
Figure 7. CONTRIBUTION TO INFLATION BY NON-CORE CPI ITEMS
(PERCENTAGE POINTS, NSA)



Source: BBVA Research based on data by Haver Analytics.

The slowdown in shelter inflation to levels closer to the target will do the heavy lifting in bringing down core inflation throughout 2024

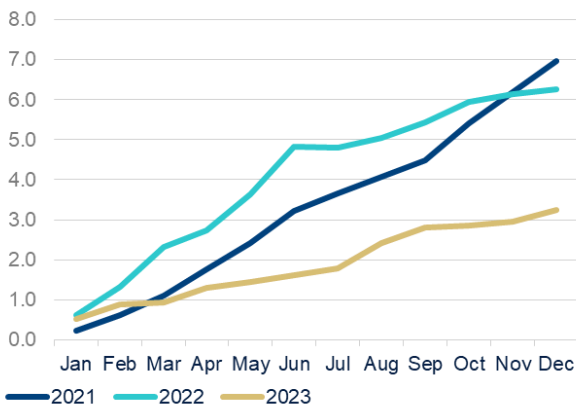
Figure 8. CONTRIBUTION TO INFLATION BY CORE CPI ITEMS
(PERCENTAGE POINTS, NSA)



Source: BBVA Research based on data by Haver Analytics.

Both headline and core inflation increased at a more modest pace throughout 2023...

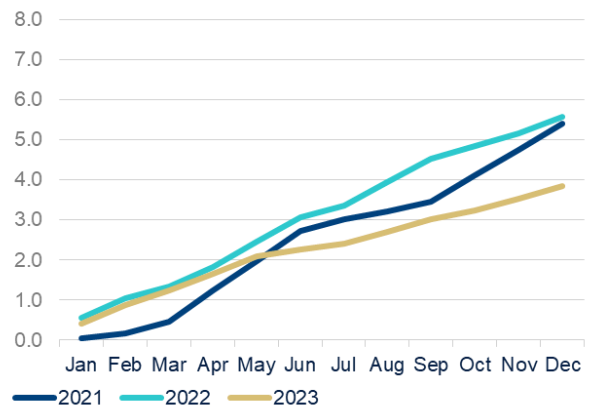
Figure 9. **CPI**
(CUMULATIVE MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

... even though shelter inflation did not start to ease until 2H23 and slowed down only modestly

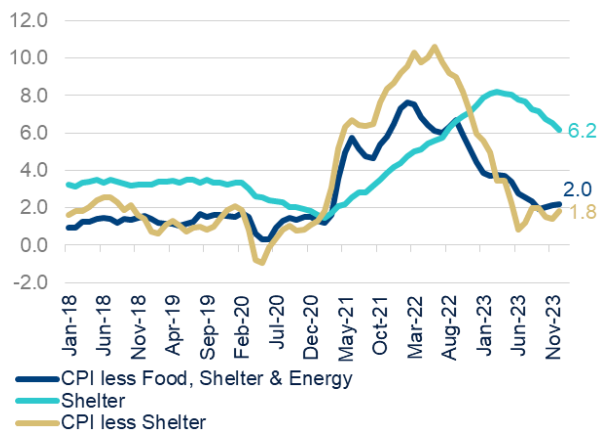
Figure 10. **CORE CPI**
(CUMULATIVE MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

As shelter inflation accounts for 44% of the core index, it will be a key driver of lower inflation

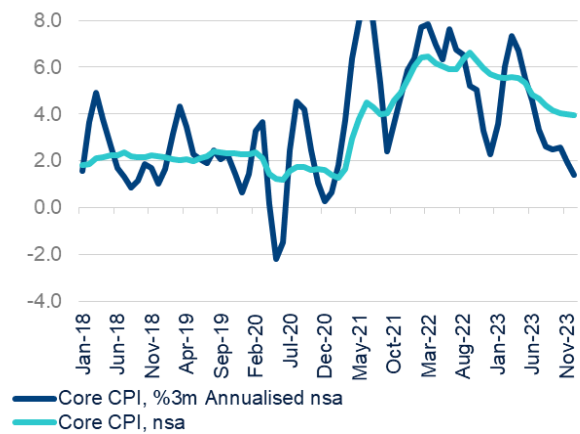
Figure 11. **CPI SPECIAL AGGREGATE INDEXES**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

3-month annualized core inflation is already rising around the 2.0% target

Figure 12. **CORE CPI ANNUALISED**
(YoY %)



Source: BBVA Research based on data by Haver Analytics.

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