

BBVA Research Flash

U.S.

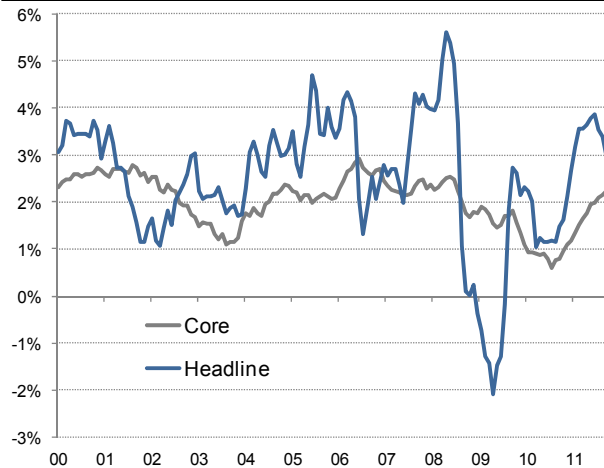
Declining energy costs ease price pressures in December

- **Despite another gain in food inflation, declines in all energy components led to no change in December's headline inflation**
- **Core inflation increased 0.1% led by gains in shelter and medical care**

Headline consumer price inflation was unchanged in December for the second consecutive month, confirming expectations of price stabilization moving into 2012. Declining energy prices were the main driver of easing inflation, falling 1.3% after dropping 1.6% and 2.0% in the previous two months. The household energy, gasoline, fuel oil, natural gas, and electricity indices all declined in December. Food prices increased 0.2% following 0.1% inflation in October and November. Core inflation decelerated to 0.1%, with increases concentrated in medical care and rent. Partially offsetting these core component gains were declines in new and used car and apparel prices.

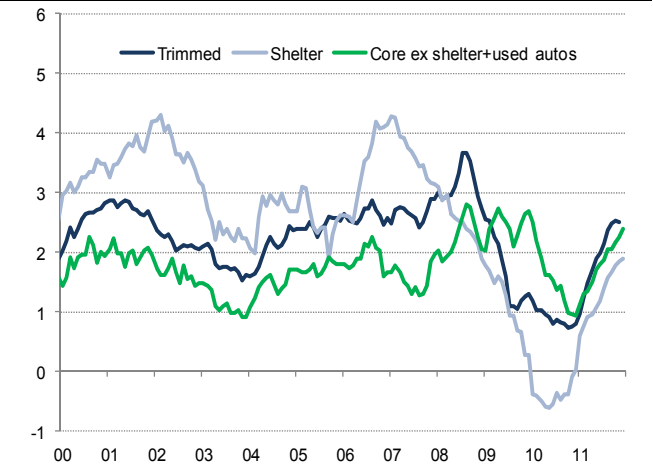
Over the past 12 months, headline and core inflation increased 3.0% and 2.2%, respectively. Alternative measures of underlying inflation, such as the trimmed-mean CPI and the median CPI, have increased on both a MoM and YoY basis. However, today's data continue to signal easing price pressures, ultimately helping to boost growth by encouraging consumer spending. Inflation is falling in line with the Fed's expectations and supports their outlook on the economy. Recent trends will likely be reflected in FOMC discussions during next week's two-day meeting.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics

Chart 2
Trimmed Mean, Shelter, and Core CPI
YoY % Change



Source: Bureau of Labor Statistics and BBVA Research

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