

BBVA Research Flash

U.S.

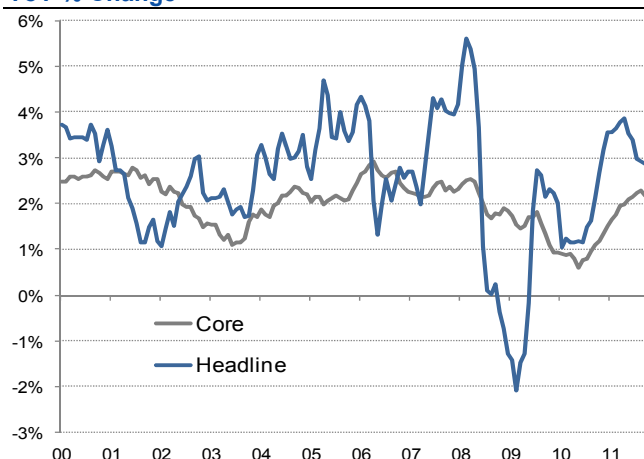
Energy Prices Drive Headline Inflation, Core Prices Ease

- **Headline consumer price inflation increased 0.4% in February following 0.2% in January, while core prices eased to 0.1%**
- **Energy prices jumped 3.2%, the largest gain since March 2011, mostly due to a 6.0% rise in the gasoline index**

Consumer price inflation increased 0.4% in February following a 0.2% rise in January and marking the largest gain in ten months. As expected, energy prices were the main driver of inflation, up 3.2% after rising 0.2% in January. The gasoline index led the energy components at 6.0%, while the household energy index declined for the fifth consecutive month. Food inflation was unchanged in February for the first time since July 2010, in line with our expectations for easing commodity prices throughout 1Q12. Excluding food and energy, core inflation eased to 0.1% from a 0.2% gain in January. Leading the core components were transportation, medical care, and shelter at 2.1%, 0.2%, and 0.2%, respectively. On a YoY basis, headline inflation held steady at 2.9% in February, while core declined slightly from 2.3% to 2.2%.

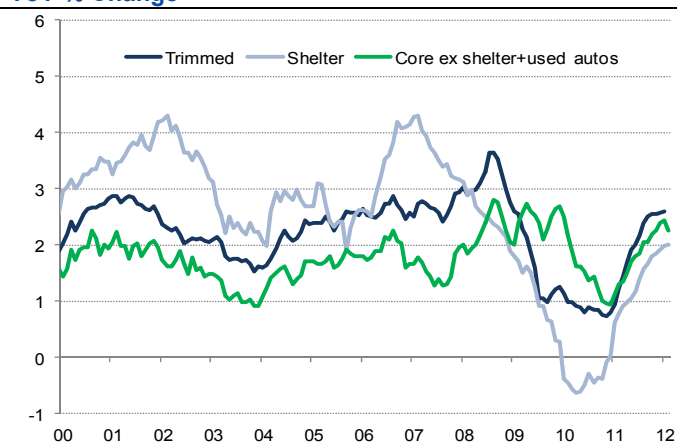
Energy prices appear to be the main focus in today's data, although concerns are limited for the time being. In general, energy prices have mostly recovered from three consecutive months of decline in 4Q12, though the index remains slightly below September's level. Prolonged tensions in the Middle East could cause prices to remain high for longer than previously expected, yet we maintain our baseline scenario for moderating price pressures throughout the coming quarters. In the latest FOMC meeting announcement, the Fed noted that rising oil prices will increase inflation only temporarily, and inflation expectations remain stable. Thus, we do not expect today's data to expedite Fed action.

Chart 1

Consumer Price Inflation
YoY % Change

Source: Bureau of Labor Statistics and BBVA Research

Chart 2

Trimmed Mean, Shelter, and Core CPI
YoY % Change

Source: Bureau of Labor Statistics and BBVA Research

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