

U.S. Inflation Flash

Falling Gas Prices Drag Down Headline Inflation in May

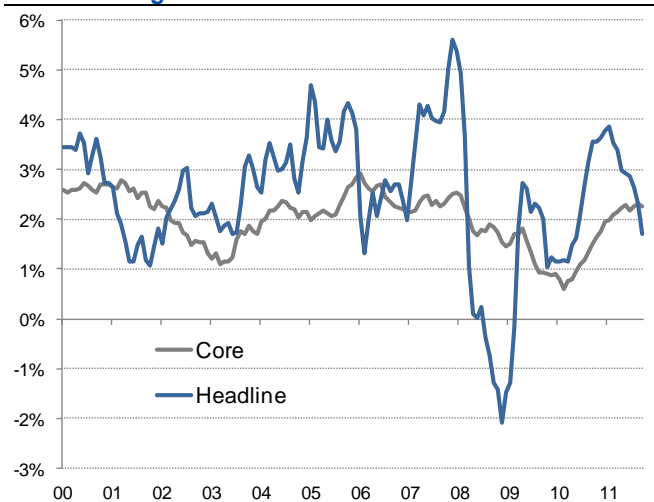
- **Headline inflation dropped 0.3% MoM in May following no change in April**
- **The energy index fell 4.3%, led mostly by a 6.8% decline in gas prices**
- **Core prices increased 0.2% for the third consecutive month**

The consumer price index declined slightly more than expected in May, down 0.3% following no change in April. Headline inflation had been relatively strong on a monthly basis throughout the first quarter but is now reflective of falling energy prices. The energy index declined 4.3% in May after falling 1.7% in April, with the index now at the lowest level since February 2011. Gas prices led the overall decline, dropping 6.8% following a 2.6% decrease in the previous month. Food prices were unchanged in May for the first time in three months. On a YoY basis, headline inflation dropped from 2.3% in April to 1.7% in May, the lowest rate in more than a year.

Despite the recent swings in headline inflation, core prices held steady at 0.2% MoM for the third consecutive month. Most of the pressure stems from medical care services, which increased 0.5% after gaining 0.4% in April. Shelter prices have also been consistent, up 0.2% for the eighth straight month. Other components are also adding pressure to core inflation, including apparel and used car prices, which increased 0.4% and 1.0%, respectively. On a YoY basis, core inflation holds steady at 2.3%, with medical care services jumping to 3.9% and shelter at 2.3%.

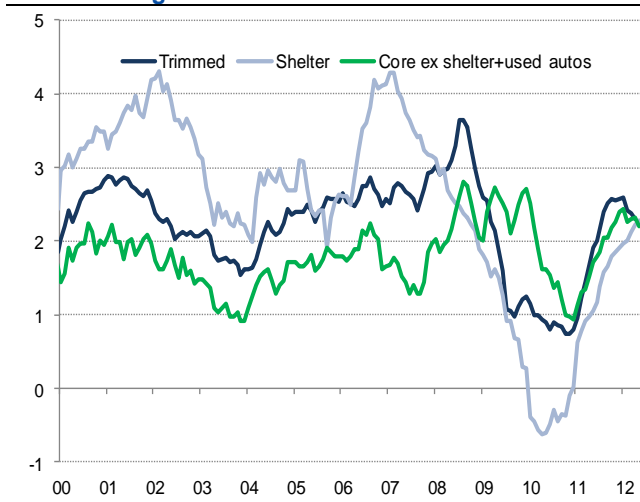
In regards to our baseline scenario, our current forecast assumes Brent oil prices above \$120pb in the next five months, which seems high now compared to the latest price of \$113pb in May. Thus, the sharp decline in oil prices has created a downward bias for our headline inflation forecast, which stands at 2.5% for 2012. Also, current trends in medical care and shelter prices, as well as other components, continue to present an upward bias for the core figure, which we expect may end slightly higher than our current 2012 forecast of 1.9%.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

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



Source: Bureau of Labor Statistics & BBVA Research

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