

U.S. Inflation Flash

Core Inflation Remains Soft as Headline Prices Are Unchanged

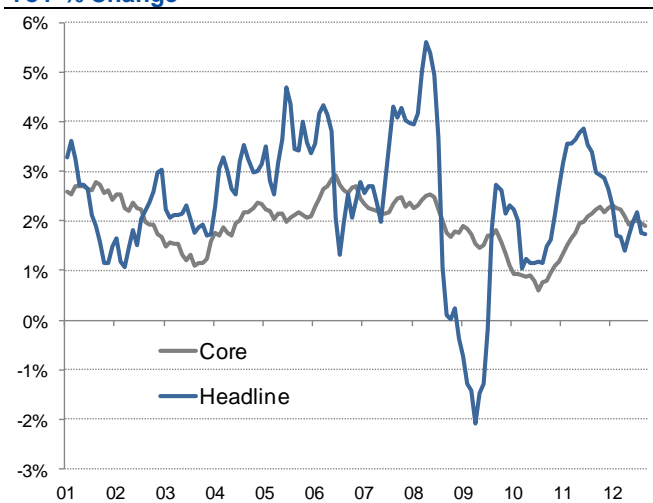
- **Headline inflation registers no change from November and was in line with consensus**
- **Energy prices continued their descent, down 1.2% after falling 4.1% in November**
- **Core prices rose by 0.1% boosted by a 0.2% rise in services**

Consumer prices remained unchanged in December. Although energy costs continued to decline, service prices accelerated to result in an unchanged CPI estimate. In terms of headline movers, food prices continued to increase, rising by 0.2% as the effects of the drought put upward pressures on grain and meat prices. For the second straight month, energy prices declined on falling gasoline prices. The sector's 1.2% decline was led by a 2.3% fall in gasoline prices after their precipitous 7.4% fall in November. On a year-over-year (YoY) basis, overall energy prices have remained relatively less volatile, and are up 0.5% YoY after dropping midyear from May through August. In contrast, food prices continued their decelerating trend, and are up 1.8% on the year, although growth is down from the 4.4% rate registered at the beginning of the year.

Core prices exhibited modest growth, up 0.1% MoM. This pace was the same during November and is consistent with core inflation throughout much of the year. Commodities were not the driver this month, falling 0.2% as most components declined except for a 0.5% increase in tobacco prices. Medical care commodities and used car prices both fell more than 0.4% while apparel declined slightly by 0.1%. Service prices such as shelter, medical care and transportation drove the uptick in core prices, rising 0.1%, 0.3% and 0.5%, respectively. Airfare prices contributed to an increase in transportation prices while rising prices for vehicle insurance and hospital services pushed prices in their respective sectors upward. Inflationary pressures continue to be minimal and support the Federal Reserve's decision to maintain low target rates for a prolonged period. As we move forward into the new year, we expect core prices to remain soft and energy prices to continue to exert downward pressure on the headline figure.

Chart 1

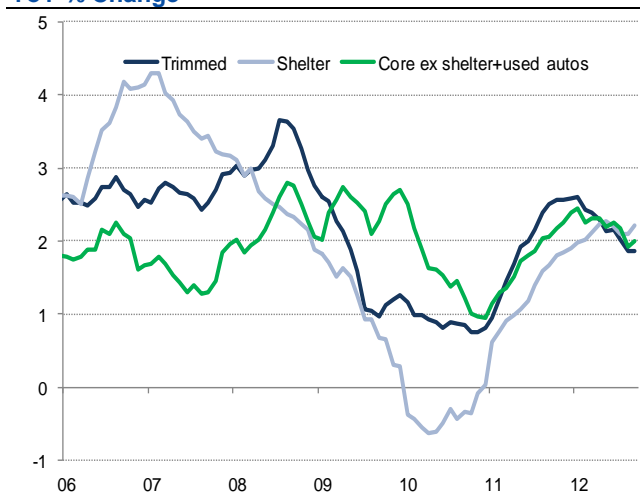
Consumer Price Inflation YoY % Change



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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