

U.S. Inflation Flash

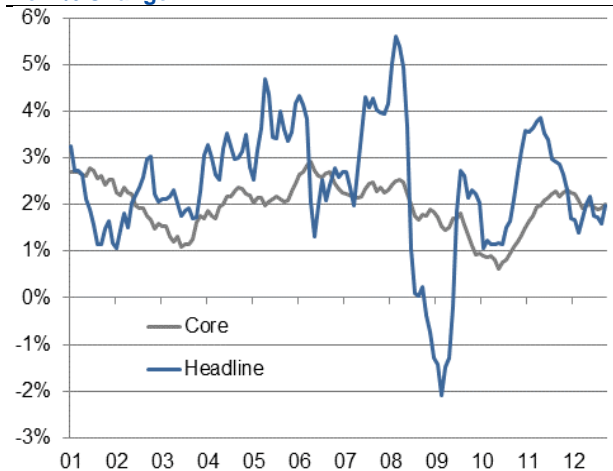
Headline Inflation Jumps on Higher Gas Prices in February

- **Headline inflation surged 0.7% on markedly higher gas prices**
- **Energy prices showed a significant rise of 5.4%, its highest since June 2009**
- **Core prices rose 0.2% after a 0.3% the month prior**

Consumer prices were mixed as headline inflation showed a significant rise but core prices remained on par with past months. The headline consumer prices index (CPI) rose by 0.7%, its largest monthly upswing since June 2009. Energy costs, the predominant mover in headline inflation as of late, climbed by 5.4%. The gasoline subcomponent price was the substantial mover in energy costs, up 9.0% in February. Consumers felt this at the pump according to the US Energy Information Administration. Their national survey showed gasoline prices, for all grades, rose from \$3.39 in January to \$3.73 in February. In the rest of the energy component, electricity prices rose slightly by 0.3% while utility gas services rose 1.2% after a 1.7% decline in January. Foods prices remained subdued, rising 0.1%, as the worst effects of the drought are dwindling and agriculture and livestock suppliers are getting closer to typical production. On a YoY basis the headline figure rose 2.0% in February a significant increase along with headlines monthly rise. However, with gasoline prices already on the decline in March, we do expect this headline figure to return to a more passive level save any additional disruption in energy prices.

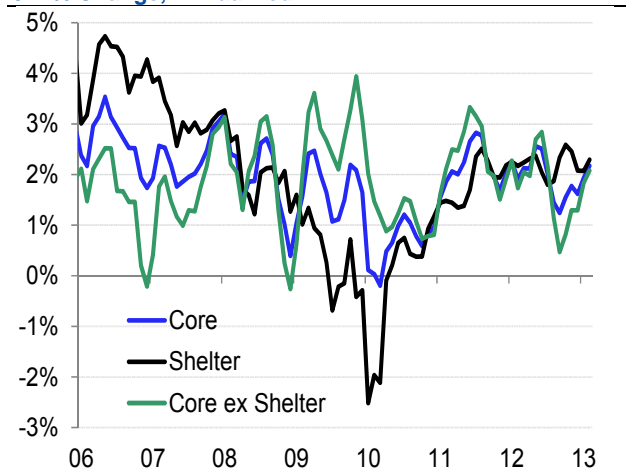
Core prices rose 0.2% and 2.0% YoY, still below the Fed's 2.5% threshold for policy action and therefore within their guiderails. Within the commodities subcomponent, used cars and trucks showed the only rise in price, up 0.8%, whereas new vehicles declined 0.3% for its first negative figure since late 2011. The services figure rose by 0.2%, a stable increase given its fluctuation between 0.1%-0.3% over the past 2 years. Within services, shelter prices rose 0.2%, the same as the month before while the medical subcomponent saw a 0.8% rise in prices for hospital services. Transportation services for February showed some increase in prices from vehicle maintenance and insurance but airline fare declined by 0.3% for the first time since August 2012 after a strong rise in January of 1.1%. As core levels remain soft the Fed's policy continues to be viable and accommodative for the time being.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Core Inflation and Shelter Prices
3m % Change, Annualized



Source: Bureau of Labor Statistics & BBVA Research

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