

U.S. Inflation Flash

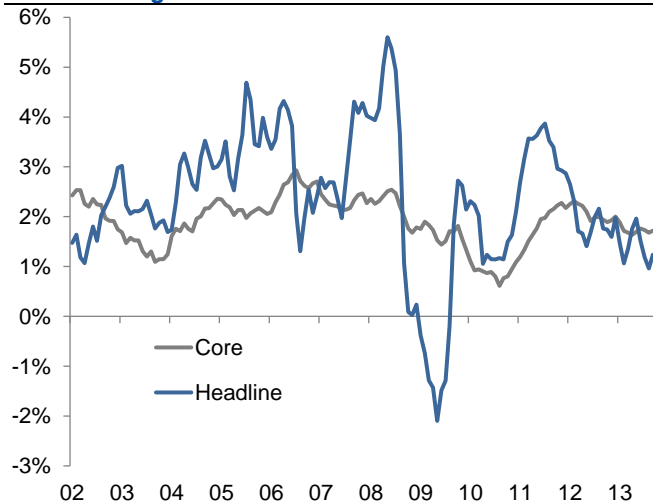
Inflation Unchanged in November Ahead of Fed Meeting

- **Headline inflation posts flat reading despite 1.0% fall in energy prices**
- **Transportation and shelter prices account for most of core gains**
- **CPI data could prompt Fed to announce inflation floor of 1.5% for policy guidance**

The headline consumer price index for November remained unchanged due to a combination of lower energy prices and increases in transportation and shelter prices. As expected, the energy index decreased by 1.0% following a 1.7% decline in October, mostly due to the decline in motor fuel. This does not come as much of a surprise, as gasoline prices around the country have hit year-lows throughout the second half of this year. Although gasoline prices continue to fall, electricity prices did see a 0.3% gain in November, which can be attributed to the increase in natural gas prices over the past few months. Offsetting the decline in the energy index, food inflation remained steady at 0.1% for the second straight month, driven mostly by the food away from home category. Focusing on core price inflation, the index ticked up 0.2%, which has been the trend in 2013 and is in line with our expectations. Services remained a primary driver of core inflation with a 0.3% increase, the biggest gain since January of this year, as shelter and transportation prices continue to rise. The gain in transportation services can be attributed to airline fare prices, which increased by 2.6% in November.

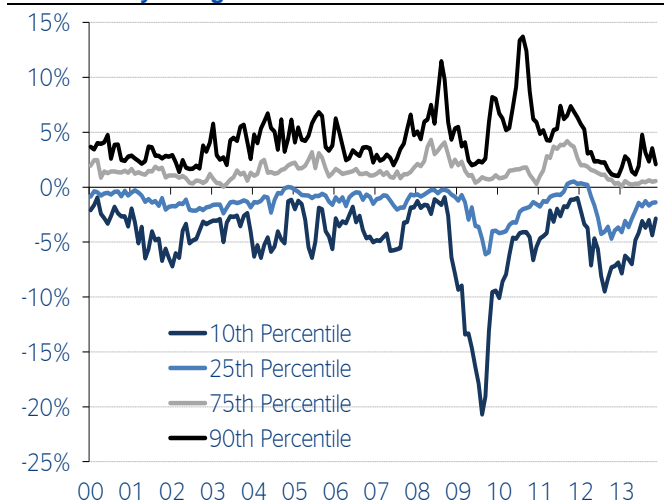
In comparison to last year, headline prices are up 1.2% and core prices are up 1.7%, holding below the Fed's inflation target of 2.0%. Amidst the FOMC's two-day meeting today and tomorrow, the news could weigh on the decision to announce tapering before year-end. In fact, the data could prompt a more immediate response on forward guidance and the Fed's desired thresholds for inflation, possibly introducing a floor of 1.5%. PCE inflation, which the Fed follows more closely than CPI, remains closer to 1.0% growth on a YoY basis. Therefore, we expect that inflationary concerns will dominate most of the discussion at the Fed meeting.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
12M YoY Relative Consumer Price Distribution
YoY% less year-ago YoY%



Source: Bureau of Labor Statistics & BBVA Research

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