

U.S. Inflation Flash

Inflation and Core Prices Tick Upward in January

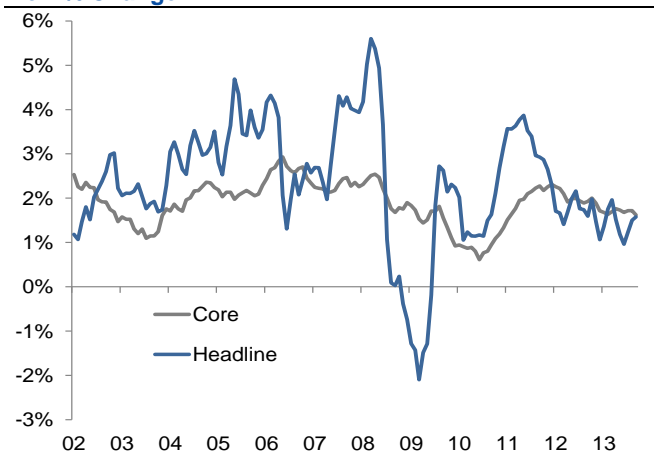
- On a YoY basis, headline CPI accelerated to 1.6%, still below the Fed's target of 2.0%
- Growth in medical services and shelter expenses continue to outpace all other goods
- As tapering begins, we expect the inflation rate to remain low

The headline consumer price index for January increased by 0.1% on a monthly basis, primarily led by a jump in prices for energy services. Overall energy prices were up 0.6% MoM propelled by utility services and electricity, which together rose 2.2% in January. Prices for energy commodities declined 0.5% for the month, driven by a 1.0% drop in prices at the pump. With the decline in January, gasoline prices are mostly unchanged from a year ago, but electricity and utility services are up above 4.0%, a likely result of consumers cranking up their heaters during the colder-than-expected winter season.

Excluding food and energy, the consumer price index ticked upward slightly by 0.1% on a MoM basis. The cost of shelter increased for the third consecutive month by 0.3% and continues to rise at a more rapid pace relative to the cost of goods. Shelter costs increased 2.6% on a YoY basis, a sign that consumers are forced to dedicate a greater portion of their salaries to living expenses. At the same time, medical care services are also increasing at a greater pace than overall goods, up 2.5% YoY in January. However, the growth in medical care appears to be decelerating, as this is the lowest YoY growth rate in medical care services in nearly 40 years.

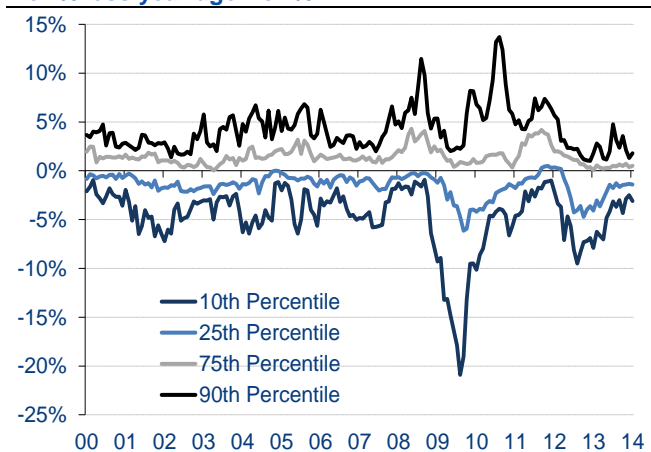
On a yearly basis, headline inflation and core prices are both up 1.6%, and with regards to monetary policy, continue to hover below the Fed's target of 2.0%. In the wake of a brighter employment picture, the Fed began scaling back the pace of asset purchases starting in January, and thus far it appears that it had no significant impact on the inflation rate. Still, we expect the board to watch CPI closely, as tapering too quickly could lead to lower price growth and potentially put the dollar at risk of low inflation and possibly deflation. Moving forward, we do not forecast any major changes in the inflation rate for 2014, and expect YoY growth to remain between 1-2% through the tapering process.

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

Michael Soni
Michael.soni@bbvacompass.com
+1 713 831 7348

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.