

# U.S. Inflation Flash

## Headline and Core Prices Continue to Trend Below Target

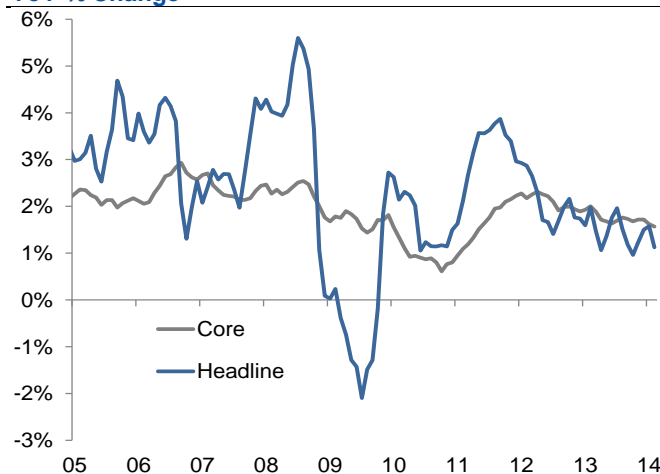
- **Headline CPI decelerated to 1.6% YoY, well below the Fed's target of 2.5% for the index**
- **A jump in food prices for February was offset by a decline in the energy component**
- **Lower-than-targeted CPI warrants discussion ahead of FOMC meeting**

For the second straight month, the headline consumer price index for February increased by a modest 0.1% on a monthly basis. However, this time around the increase was driven by a jump in food prices, which were up 0.4% MoM to mark the fastest monthly pace since August 2011. This food price spike was offset by a 0.5% MoM decline in the energy component, leaving the consumer price index relatively unchanged for the month. Utility gas services saw a 3.6% MoM jump, as high demand for natural gas driven by cold weather hiked up the price. Gasoline prices mitigated this increase, falling 1.7% MoM and dropping 8.1% on a YoY basis. The low gas price environment is not here to stay, and we expect a rebound in the coming months to cause upward bias on inflation as we move forward. Looking at the core inflation figure, the consumer price index also inched upward by 0.1% on a MoM basis. Shelter prices continue to outpace other components of core inflation, up 0.2% MoM and 2.6% YoY in February. The cost of hospital services increased 0.6% MoM, and in the wake of the Affordable Care Act, it will be important to watch how the cost of medical care services is affected over the next several years.

On a yearly basis, core inflation is now up only 1.6% YoY, and with regards to monetary policy, is trending far below the 2.5% Fed target for the CPI figure. After fears that post-recession monetary policy might cause a significant increase in inflation, we have seen just the opposite—overall inflation has been trending far lower than expected. Ahead of the FOMC meeting today and tomorrow, we expect inflation to be at the forefront of discussion. While we still do not expect the Fed to alter monetary policy following this CPI report, the decreasing pace of inflation certainly warrants attention. Our 2014 forecast for inflation remains unchanged, and we project YoY growth to linger between 1-2% as the Fed continues tapering.

Chart 1

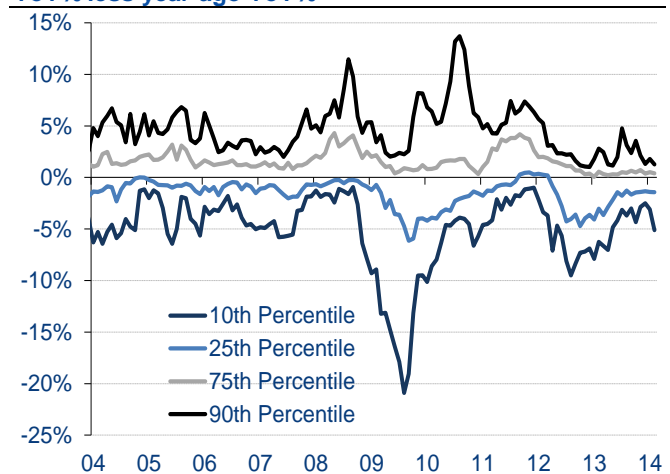
### Consumer Price Inflation YoY % Change



Source: Bureau of Labor Statistics &amp; BBVA Research

Chart 2

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



Source: Bureau of Labor Statistics &amp; BBVA Research

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