



Economic Flash!

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US Price Pressures Right Where the Fed Wants Them

Following is a summary of the December US consumer price report from the US Labor Department

	Dec	Nov	Oct	Sep	Aug	Jul	DecNSA YOY%
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All items	-0.1%	0.0%	0.3%	0.1%	0.2%	0.2%	1.9%
ex-food/energy	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	2.2%
Energy	-3.5%	-2.2%	2.4%	-0.5%	1.9%	-0.5%	-0.3%
Services	0.3%	0.2%	0.3%	0.2%	0.2%	0.3%	2.8%
ex-energy	0.3%	0.2%	0.2%	0.2%	0.2%	0.3%	2.9%
Housing	0.4%	0.3%	0.3%	0.1%	0.3%	0.2%	3.0%
Fuels & util.	1.0%	0.5%	1.3%	-0.6%	0.5%	-0.2%	2.1%
Food/beverages	0.4%	0.2%	-0.1%	0.1%	0.1%	0.1%	1.6%
Food	0.4%	0.2%	-0.1%	0.0%	0.1%	0.1%	1.6%
Apparel	0.0%	-0.9%	0.1%	0.9%	-1.6%	-0.3%	-0.1%
Transportation	-2.0%	-0.8%	1.1%	-0.3%	0.9%	0.3%	0.7%
Medical care	0.3%	0.4%	0.2%	0.2%	-0.2%	-0.2%	2.0%
Recreation	0.6%	0.4%	-0.1%	0.3%	-0.1%	0.2%	1.2%
Education, comm.	0.1%	-0.5%	-0.1%	0.1%	0.2%	0.2%	0.2%
Pers. computers	1.4%	-1.8%	-1.6%	1.1%	1.4%	-2.0%	-3.0%
Other good, serv.	-0.1%	0.3%	0.2%	0.1%	0.0%	0.0%	2.1%
Tobacco	-0.4%	0.4%	1.3%	0.3%	0.1%	0.1%	3.4%
Commodities	-0.7%	-0.3%	0.5%	-0.2%	0.2%	0.0%	0.4%
ex-food/bev.	-1.4%	-0.7%	0.8%	-0.3%	0.3%	0.0%	-0.3%
ex-food/energy	0.1%	0.2%	0.3%	-0.3%	-0.3%	0.1%	0.1%

Source: Bloomberg

- Neither wage acceleration nor tariffs appear to be a threat to the inflation outlook at this point, as December's unchanged core inflation reading confirmed. With CPI readings implying that the Fed's preferred inflation metric, core PCE, will remain just below target, central bankers will put more emphasis on slowing growth indicators in the months ahead in addition to financial market stability. That should enable the Fed to remain on hold in Q1, before hiking rates for the only time in 2019 in Q2.
- Headline CPI fell by 0.1% m/m in December, driving a three-tick deceleration in inflation to 1.9% y/y. The deceleration was caused entirely by a drop in energy prices. However, gasoline prices are expected to become firmer over 2019 along with the price of oil, allowing that impact to fade, something that will be helped by OPEC production cuts.

- Core prices rose 0.2% m/m as expected, leaving the annual rate unchanged at 2.2%. Despite transportation services displaying the negative impact of the fall in the price of oil (-0.2% m/m), services provided most of the lift to core prices. Importantly, shelter prices held up better (+0.3% m/m) which will bolster core PCE prices given their higher weight in that measure. Still, the slowdown in housing market activity could limit further gains in that component ahead.
- Core goods prices gained an uninspiring 0.1% m/m, reflecting waning demand for vehicles amidst higher interest rates. End-of-year discounts on autos that may not have been fully picked up by the seasonal adjustment process may explain some of the weakness seen in both auto and apparel prices.

Implications & Actions

Re: Economic Forecast –With inflation right where the Fed wants it to be, policymakers will be able to take a breather from raising rates in Q1 as they assess the extent of the imminent slowdown in growth indicators. The Fed is poised to raise rates only once in 2019, likely in Q2.

Re: Markets – Given that today’s report was on consensus, market reaction was limited.

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