

## U.S. Consumer Price Index — December

# Prices Permit Powell's Preaching of Patience

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Couldn't resist the use of alliteration .... this will be a one-off. But it is true ..... **U.S. consumer prices were pretty restrained** last month, keeping inflation in check. **Consumer prices** slipped an as-expected 0.1% in December, the first headline drop since March, which slowed the year-over-year pace further to 1.9% from 2.2% in the prior month, the first sub 2% reading since August 2017. Note that it was just under 3% only five months before. One big explanation behind this was **energy**, which dropped for the 3<sup>rd</sup> time in the past four months, and by a hefty 3.5%, most recently. **Food**, meantime, cooked up a 0.4% jump, the largest gain in nearly five years. **Excluding food & energy**, costs rose an as-expected 0.2%, supported by higher prices for housing, utilities, recreation and medical care, while offset by flat readings for cars and clothes. The core 3 and 6-month trends perked up a bit but it wasn't really worth writing home about (3-months from 2.1% to 2.5%, 6-months from 2.0% to 2.1%).

Yes, there is impact on inflation from tariffs but it is being offset by the stronger greenback. But slower growth is showing up in the data—whatever data are being released these days—and that is acting to cool inflation. And that will allow Fed Chair Powell to preach patience.

This is where I plug our FX and interest rate publication, *Rates Scenario*... As we wrote in our latest Rates Scenario, this inflation data support our latest Fed call. We still see two more rate hikes by the Federal Reserve this year but later (in June and December, instead of May and September).



Consumer Price Index					
United States (month/month % change : s.a.)	( % change : a.r.)				
	Dec	Nov	Oct	6-month	12-month
All Items	-0.1	0.0	0.3	1.5	1.9
Ex. Food and Energy	0.2	0.2	0.2	2.1	2.2
Food	0.4	0.2	-0.1	1.6	1.6
Energy	-3.5	-2.2	2.4	-4.8	-0.3
Clothing	0.0	-0.9	0.1	-3.7	-0.1
Transportation	-2.0	-0.8	1.1	-1.6	0.7
New Vehicles	0.0	0.0	-0.2	0.0	-0.3
Gasoline	-7.5	-4.2	3.0	-13.1	-2.1
Medical Care	0.3	0.4	0.2	1.1	2.0
Recreation	0.6	0.4	-0.1	2.7	1.2
Education	0.2	0.2	0.2	3.2	2.6
Owners' Equivalent Rent	0.2	0.3	0.3	3.2	3.2

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