



Economic Flash!

January 19, 2012

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US Inflation running out of energy

U.S. Labor Department Consumer Price Index, 1982-84 = 100 Percent Changes:	Seasonally		Adj.			Unadj Dec11/10
	Dec	Nov	Oct	Sep	Aug	
All Items	UNCH	UNCH	-0.1	0.3	0.4	3.0
Excluding Food/Energy	0.1	0.2	0.1	0.1	0.2	2.2
Energy	-1.3	-1.6	-2.0	2.0	1.2	6.6
Food and Beverages	0.2	0.1	0.1	0.4	0.5	4.5
Food	0.2	0.1	0.1	0.4	0.5	4.7
Housing	0.1	0.1	0.1	0.2	0.2	1.9
Shelter	0.2	0.2	0.2	0.1	0.2	1.9
Rent of Primary Residence	0.3	0.2	0.4	0.2	0.4	2.5
Owners' Equivalent Rent	0.2	0.1	0.2	0.1	0.2	1.8
Housing Fuels/Utilities	-0.2	-0.3	-0.2	0.7	0.3	2.4
Household Furn/Operations	0.1	UNCH	0.1	UNCH	0.3	1.0
Apparel	-0.1	0.6	0.4	-1.1	1.1	4.6
Transportation	-0.7	-0.8	-1.1	1.0	0.7	5.2
New/Used Motor Vehicles	-0.4	-0.3	-0.4	-0.2	0.2	2.8
New Vehicles	-0.2	-0.3	-0.3	UNCH	UNCH	3.2
Gasoline	-2.0	-2.4	-3.1	2.9	1.9	9.9
Medical Care	0.4	0.4	0.5	0.2	0.2	3.5
Prescription drugs	0.4	N/A	N/A	N/A	N/A	4.1
Recreation	0.4	0.1	-0.1	-0.1	0.1	1.0
Education/Communication	0.1	0.2	0.2	0.1	0.1	1.7
Tobacco	0.4	0.1	UNCH	0.7	0.5	2.3
Commodities	-0.3	-0.3	-0.4	0.5	0.6	4.2
Services	0.2	0.1	0.2	0.2	0.2	2.2
Airline Fares	0.2	N/A	N/A	N/A	N/A	4.5
CPI-urban wage earners/clerical	UNCH	-0.1	-0.1	0.4	0.4	3.2

Source: Thomson Reuters

- On the headline measure, US consumer prices were flat for a second successive month in December, a tick below the 0.1% rise expected by the consensus. This saw the annual rate fall from 3.4% to 3.0%—the lowest since last March. The weaker headline figure mainly reflected a further decline in energy prices, as core inflation matched expectations by rising 0.1% m/m to keep the annual rate unchanged at 2.2%.
- Energy prices fell by 1.3% in December, marking the third successive 1%-plus reduction. Gasoline prices were 2% lower than in November. The increase in food prices sharpened slightly to 0.2% m/m, following consecutive readings of 0.1%, but made little impact to offset the decline in energy. A reduction in the food component of producer prices yesterday raises the possibility of mild reductions in this area over the near term as well.

- Within core consumer prices, owners' equivalent rents rose by 0.2% m/m—slightly sharper than the 0.1% rise in November but in line with the average during H2 2011. Prices for recreation jumped by 0.4%—the strongest increase in this area since August 2008. The cost of medical care also rose by 0.4% in December to match the increase seen in November.
- Pulling core prices in the opposite direction, vehicle costs continued to fall modestly, with the 0.4% decline in December the fourth consecutive monthly reduction. Apparel prices were also marginally lower compared with November, although at 4.6% the annual rate was only marginally below the 21-year high recorded in the previous month.
- Released alongside today's CPI figures, initial jobless claims fell by 50K in the latest week from 402K to 352K. Although the claims data can prove volatile around the start of a new year, the better-than-expected figure meant the four-month average remains consistent with improved labour market conditions compared with 2011.
- Negating this positive surprise in initial claims slightly, housing starts fell by more than expected to 657K in December, from 680K in the prior month. However, the reduction followed a marked increase in November, driven by the volatile multiples area, and the underlying trend remains one of gradual improvement.

Implications & Actions

Re: Economic Forecast — A second consecutive flat reading for headline consumer prices confirms that inflationary pressures have subsided significantly, easing one burden beleaguering consumers' finances. Although the rebound in oil back above \$100 could limit the prospect for further improvement, monthly increases in prices should still be weaker than trends recorded last year and see the annual rate of inflation fall below 2%. Weaker inflationary pressures should help consumer spending post growth of around 2% in 2012, even if the savings rate edges back up.

Re: Markets — Stock futures were already higher prior to the release following better earnings data. There was no lasting reaction from today's data releases for either equities or fixed income.

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