



TD Economics

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Data Release: December consumer prices decline sharply on low oil and high dollar, while core prices disappoint

- The Consumer Price Index (CPI) fell by 0.4% in December, on par with expectations, with year-over-year inflation decelerating from 1.3% to 0.8%.
- Core CPI failed to advance on a monthly basis, disappointing expectations for a 0.1% gain. As such, core CPI has risen by just 1.6% in the past year – slightly slower than the 1.7% registered in the previous month.
- The decline in the headline measure was largely due to energy (-4.7% m/m) and transportation services (-3.0%) – both highly correlated with oil prices. Apparel costs also fell, likely aided by the dollar appreciation.
- On the other hand, prices of services rose by 0.2% for the fourth month in a row. Medical care (+0.5%) and housing (+0.2%) led the gains, while the cost of recreational services remained flat.

Key Implications

- While the decline in the headline inflation rate was certainly not a surprise given the 21% decline in crude oil prices during the month, the absence of core inflation is certainly a disappointment in the current disinflationary environment.
- To a large extent, the absence of core pressures can be chalked up to a higher dollar, which pressure down goods import prices, and to oil-intensive services, such as transportation. Excluding transportation services, core prices of other services rose by 0.2% during the month, with the year-over-year measure holding around 2.5%.
- The decline in oil since December sets the stage for another pullback in the headline in January. We expect total year-over-year inflation to dip into negative territory towards the end of Q1, and remain there for several months, based on our oil price forecast. Core inflation is also likely to decelerate, as the lower oil and strong dollar works its way through other goods & service prices. This may make the Fed all the more patient in raising interest rates. Still, a falling unemployment rate and increased utilization of resources in the U.S. economy should support core inflation in the coming quarters.

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