

Economics Group

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Consumer Prices Jump up in November

Inflation continues to run a little hotter than expected given a 10 percent unemployment rate. The CPI rose 0.4 percent in November and the core CPI was unchanged. The CPI is now up 1.8 percent, year over year.

Inflation Is Still Running a Little Hot

Higher energy prices helped pushed the Consumer Price Index up 0.4 percent in November. With the increase, the CPI is now up at a 3.4 percent annual rate over the past three months and 1.8 percent year over year. Energy was once again responsible for the bulk of the month's increase in the CPI. Energy prices rose 4.1 percent following a 1.5 percent rise in October. With November's increase, energy prices are now back above their year ago level for the first time since September 2008.

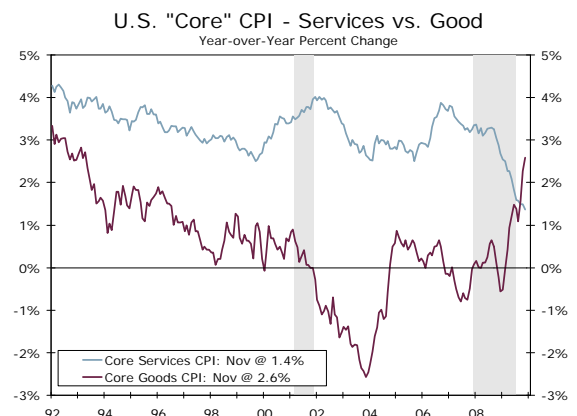
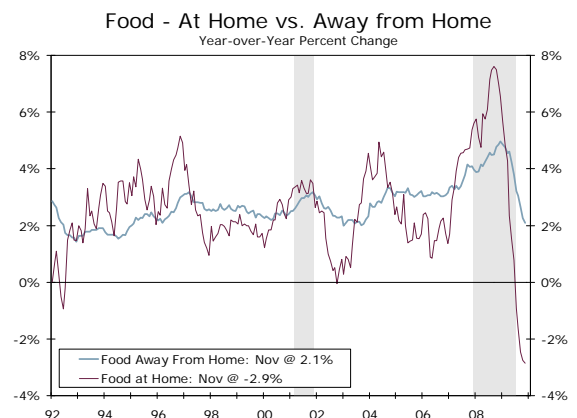
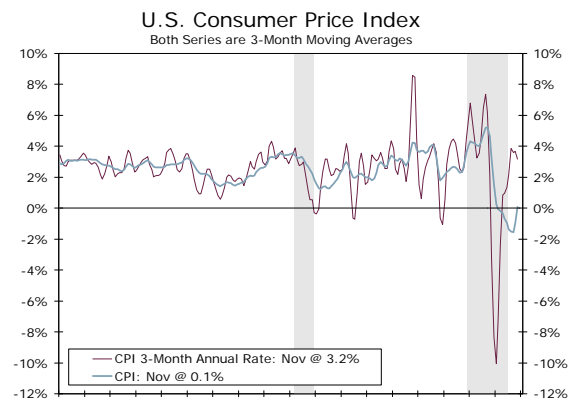
Lower energy prices had played a huge role in moderating the headline inflation numbers over the last year. Oil prices soared to a peak of \$145 a barrel in July of last year and then plummeted to less than \$34 a barrel in mid-December. Prices have since rebounded and are currently near \$71 a barrel. The rebound will push the year-to-year change in the headline CPI higher over the next few months unless oil prices plummet again.

Last year's drop in oil prices also helped reverse an earlier run-up in food prices. Food prices rose 5.8 percent in 2008 but have fallen 0.7 percent over the past year. The drop in food prices has been a huge relief for an economy that lost millions of jobs and saw incomes stagnate for many of those still working. Most of the decline in food prices has been for food purchased for home consumption, which fell 2.9 percent over the past year. Prices actually inched higher at restaurants, with prices for food purchased for consumption outside the home rising 2.1 percent. The increase seems somewhat at odds with recent promotional activity for one dollar menu items and five dollar lunches.

Taming Core Inflation May Prove Tougher Than Many Think

Prices excluding food and energy items were unchanged in November, which was better than expected. Rent and owners' equivalent rent, which account for 39 percent of the core CPI, both fell 0.1 percent in November. While core inflation still remains relatively tame on a year-to-year basis, it is proving surprisingly resilient outside of the oversupplied housing sector, particularly given a 10 percent unemployment rate. An assortment of other categories posted notable increases, including new and used vehicles, airlines, medical care and tobacco. Companies have done a very good job of shutting down inefficient capacity, boosting price power. Airline fares rose 3.8 percent in November and are up 13.3 percent since June.

Our bottom chart shows a comparison between core services prices and core goods prices. Goods prices are rising faster than services prices and are now up 2.6 percent over the past year. The gain marks the largest increase in goods prices since the early 1990s. Core goods prices are being pulled up by stronger global economic growth, while weak domestic demand continues to restrain core services prices.



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